A report on recovery progress and United States aid.. 1949

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Recovery

Program

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This *Report on Recovery Progress and United States Aid* under the European Recovery Program is submitted by the Economic Cooperation Administration for the use of the members of the Congress in their consideration of the continuation of United States assistance to the countries participating in the joint recovery program.

The ERP, in the words of the Foreign Assistance Act of 1948, is intended to promote ''the establishment of sound economic conditions, stable economic relationships, and the achievement by the countries of Europe of a healthy economy, independent of extraordinary outside assistance''. To contribute to that aim, the United States has made available in the first full year of operations, $5 billion to the countries participating in the European Recovery Program. The Congress and the American people, before deciding to assume the heavy burden of continuing this undertaking, should have full evidence assuring them that it deserves their support. A report to them should indicate what progress has been made in the first year; it should lay out clearly the aims which the expenditures of the second year are intended to achieve and assess the possibilities of their achievement; and it should appraise, to the exent that the uncertainties of the future permit, the prospects of attaining the ultimate goals.

This document and the supporting studies on which it rests are intended to serve as such a report.

Paul G. Hoffman

February 14, 1949 Administrator

Contents

CHAPTER I

Progress and Programs

The United States of America has made about \$5 billion available to Western Europe during the first twelve months of the European Recovery Program. It is estimated that, if this great effort is to be carried forward effectively, \$1.15 billion will be required in the last quarter of 1948/49, and \$4.28 billion in 1949/50.

This is a considerable reduction in annual cost. It is still a tremendous sum to ask from the American people. This year's request, however, is made in circumstances very different from those which obtained a year ago. Today there is a record on which to stand, a record of achievement both for the Europeans and for the American people. It is by this record that the request for further funds should be judged.

In embarking on this program, the American people recognized that they had an enormous stake in helping to restore the free nations of Europe to economic health and to maintain their political freedom. The Economic Cooperation Act was designed to give those nations the margins of help and of time with which they could work out their own salvation. Desperate men take desperate actions. Pathetically often in our time, nations in the face of poverty and bankruptcy have turned to totalitarianism. Such choices are not made by free men in a free and stable society, and it is to the creation of such a society that the European Recovery Program is dedicated.

America's stake in Europe is not only political but also economic. The European countries have been by tradition our best customers and are vital to the functioning of world commerce. Europe before the war bought and sold a large share of the total goods involved in international trade. Unless Europe regains its economic health and again becomes self-supporting, we cannot hope to establish in the world the non-discriminatory trade and financial policies for which we stand. If conditions in Europe had continued to deteriorate, all American business would have suffered.

Our broad political and economic purposes were reinforced by cultural and social ties with our traditional partners in the development of Western civilization, and by our commitment to the United Nations to support the freedom and independence of our fellow-members in the world organization.

The American intention is gradually to taper off the amount of help which the United States would give and to let private business, the international financial organizations, and other permanent institutions again take hold and become the channels through which American monetary resources are made available to support productive investment throughout the world. In aiming at this, we are not seeking to impose on other countries any specific economic pattern. The degree to which other governments find it necessary and desirable to exercise direct controls over economic processes is a matter for them to decide. The United States is simply following a common-sense policy which will, if it is successful, reduce the insistent economic pressures that compel governments to ration, to control, and to regulate. Such a policy seeks to release the individual energies and individual initiative that must be fostered if any type of economy is to be vigorous and healthy.

In undertaking the European Recovery Program, we abandoned piecemeal attempts to restore economic health, and rejected mere relief for the concept of recovery. We required, as a condition of our aid, that Europeans work together in a program designed to bring Western Europe into economic balance by mid-1952. This they have done, and the growing effectiveness of their Organization for European Economic Cooperation (OEEC) demonstrates that self-help and mutual aid are vital ingredients in the recovery effort. Our part of the task was to furnish the dollar assistance that no amount of effort on the part of Europeans could provide. This dollar assistance will account for only about 5 percent of the total amount to be devoted to European recovery from all sources, but it is the margin between success and failure.

The degree to which the European Recovery Program may approach success and avoid failure is beginning to become clear as the end of the first full year of American aid draws near. An examination of such results as have already been achieved is a necessary preliminary to any discussion of plans for the future.

A. WHERE WE STAND TODAY

Western European recovery is a process that involves three major operations. The first and most urgent is physical recovery from the effects of the war: essential reconstruction, the revival of production in industry and agriculture and their advance to something approaching the pre-war level and pattern, and the resumption of trade. The second is the accomplishment of those major structural changes in the economies of the participating countries by which alone they can be adapted to the post-war economic environment. These are the adjustments that must be made if Western Europe is to live without foreign aid at even a minimum standard. Finally, there is the development, rationalization, and expansion of the economies to permit a rise in the standards of living after aid has ended. These three operations cannot, of course, be sharply distinguished from one another and they overlap in time. Nevertheless they correspond roughly to phases of the recovery process beginning with the end of the war three and one-half years ago and continuing well beyond the end of the ERP.

On the whole, the first phase is nearing completion except in a few countries. This has been made possible by the use of monetary reserves which existed at the end of the war, and by extraordinary economic assistance from the United States and other countries. The second phase is to be completed by mid-1952, when, at the latest, extraordinary United States aid will cease.

Despite the impressive progress made in 1946, the European economic situation in 1947 was more precarious in many ways than it had been at the end of hostilities. In the summer of 1947, the rate of increase of industrial production became progressively smaller, and the worst harvest in years greatly diminished indigenous food production. The countries of Western Europe had used up billions of dollars of their foreign-exchange resources—reserves which had supported their economies since the end of the war. The United Kingdom had exhausted the greater part of its $3.7 billion credit from the United States, and France had almost completely depleted its gold and dollar reserves, despite a large credit from the United States. The prices of imported goods and raw materials were rising sharply while the increase in the volume of exports was disappointing. Foreign-exchange earnings were sufficient to pay for less than 40 percent of imports from the outside world. Even intra-European trade failed to develop, as the bilateral system which had grown up in the 1930's and had been extended after the war restricted further increases in intra-European trade because of lack of acceptable currencies. Finally, new efforts to increase production were thwarted by growing monetary instability.

The situation was precarious for other reasons. High hopes of speedy recovery were giving way to deep discouragement. Western Europe was, in fact, drifting toward economic collapse. Even more was at stake than the economic plight of its 270 million inhabitants. Democratic forces in Western Europe and the prospect of an enduring peace were threatened by political discord fed by growing anxiety and distress at the worsening economic situation.

The economic recovery achieved in 1948 is impressive when compared with actual conditions in 1947 and with the conditions which might have developed had the threatened collapse of 1947 been allowed to occur. Had United States assistance not become available, hard currency reserves would have been quickly exhausted; capital equipment intended for the rehabilitation and expansion of European factories would instead have been exported to foreign markets to pay for vital food imports. Even then, hard-currency earnings would have been insufficient to pay for both minimum imports of food and minimum industrial raw-material requirements. Curtailment of imports of industrial raw materials would seriously have affected industrial output, and soon exports would have been inadequate to pay for even the minimum food imports. Within a matter of months, considerable parts of Europe would in all probability have faced serious political and economic disorder.

It is against this background that actual conditions at the end of 1948 must be judged. As a result not only of American aid but also of the European action which it reinforced, Western European production in 1948 increased considerably above 1947. Total output of factories and mines in 1948 was 14 percent above 1947 and nearly equal to that of 1938. The countries that had been lagging, notably Germany, Austria, and Italy, narrowed considerably the distance that separated their recovery from that of the other industrial countries of Western Europe.

Among the heavy industries, the outstanding record was achieved in steel. Excluding Western Germany, steel operations were well above the 1938 rate and equal to the high year of 1937. The coal shortage eased; the tonnage produced in 1948 in the Bizone and the United Kingdom remained below that of pre-war, but production in all other important coal fields in Western Europe increased almost to pre-war levels.

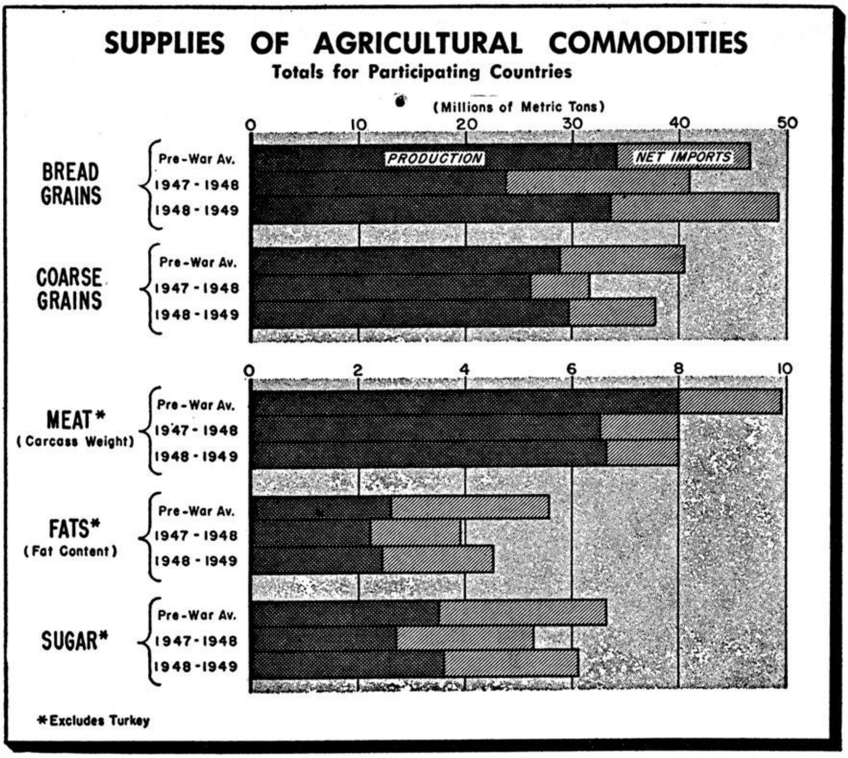
The rapid recovery of railway transportation and electric-power output materially assisted in the expansion of production. Total electric-power production in the participating countries, excluding Germany, is 65 percent above pre-war and railway freight traffic is up about one-third.

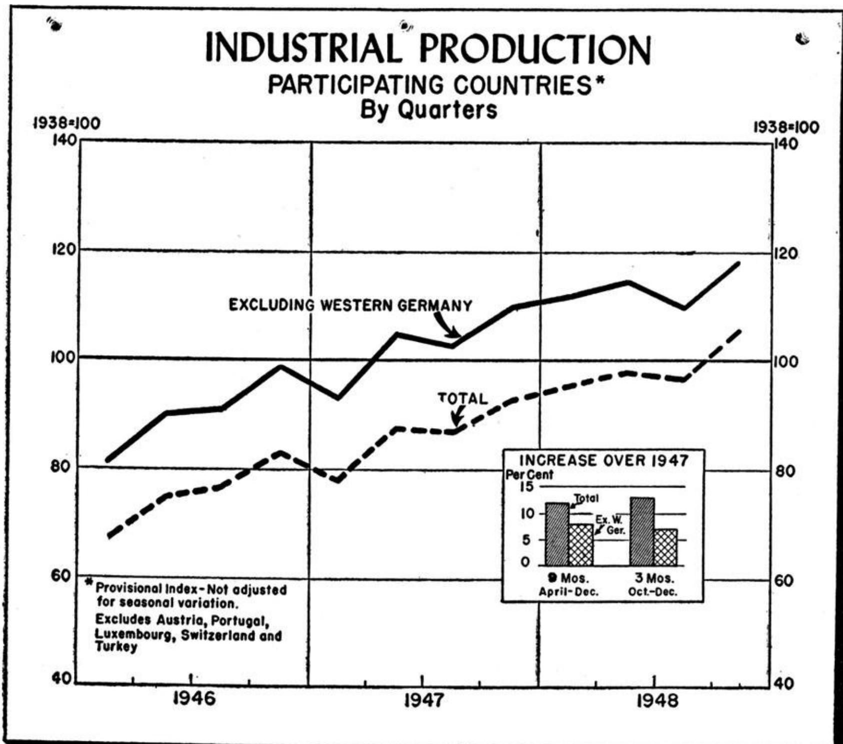
Crop production in 1948 was considerably above 1947 but was still below pre-war levels, while livestock production was slightly above 1947 and still below pre-war. However, the record of 1948 can in large measure be attributed to the extraordinarily favorable weather conditions which prevailed during the agricultural season.

Food availability from imports as well as from indigenous supplies was much improved over 1947 but was still somewhat below pre-war in caloric content. In terms of quality and variety, the comparison with pre-war is still more unfavorable, largely because of deficiencies in meat, fats, and dairy products. However, the distribution of food among various classes of the population has in many countries been more equitable than before the war.

The progress made in 1948 toward more efficient employment of manpower also assisted in expanding production. Increased supplies of materials and fuels, as well as improvements in food conditions and transportation, permitted gains in output per worker, although productivity in most industries has not recovered fully to pre-war levels. The wartime dislocation of the labor force is being gradually overcome but scattered labor shortages remain. As a result, many countries are attempting to redirect workers to more essential industries. The OEEC Manpower Committee has been investigating the possibility of labor migration from countries with surplus workers, such as Italy and Western Germany, to regions where labor is scarce.

Encouraging progress was made in 1948 toward a better balance between effective supply and demand within many of the participating countries. The upward pressure on prices which had been general in 1947 abated somewhat in these countries during 1948. As a result, many practices adopted by these governments to counteract inflationary pressures, such as rationing, allocation, and price controls, could be relaxed. This has by no means been accomplished just through increased production. It has been the result of wise and, in most cases, difficult fiscal policy decisions. The British budget has been brought into balance and the importance of this accomplishment cannot be overemphasized. In Italy, the credit restrictions imposed in September 1947 to avert the threat of a runaway inflation have been so drastic that the stabilization produced deflation, which has only recently eased somewhat.


SUPPLIES OF AGRICULTURAL COMMODITIES
Totals for Participating Countries
(Millions of Metric Tons)
PRODUCTION
NET IMPORTS
BREAD GRAINS
COARSE GRAINS
MEAT* (Carcass Weight)
FATS* (Fat Content)
SUGAR*
Pre-War Av.
1947-1948
1948-1949
*Excludes Turkey


INDUSTRIAL PRODUCTION
PARTICIPATING COUNTRIES*
By Quarters
1938=100
EXCLUDING WESTERN GERMANY
TOTAL
INCREASE OVER 1947
Per Cent
Total
Ex. W. Ger.
9 Mos. April-Dec.
3 Mos. Oct.-Dec.
* Provisional Index-Not adjusted for seasonal variation.
Excludes Austria, Portugal, Luxembourg, Switzerland and Turkey
1946
1947
1948

France was the most important country which continued to suffer from acute inflation during 1948. Heavy investment expenditures, private credit expansion, lack of confidence in the currency, and continued inadequacy of tax collections contributed to a price rise of 34 percent during the year, to capital flight, and to further depreciation of the franc in terms of other national currencies. The continued inflation was largely responsible for the inadequate export performance of France. Until the inflation can be halted, France will be unable to make the most effective contribution toward its own recovery and to that of other participating countries.

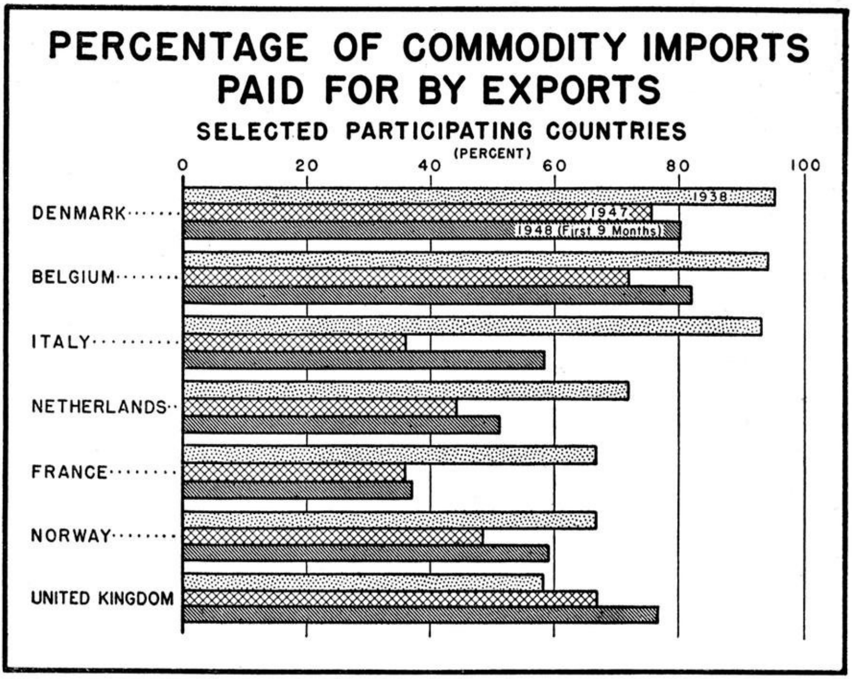
In Austria and Germany, monetary reforms were successful in reducing black-market operations, in releasing large stocks of hoarded goods, and in increasing output and productivity. In Germany, however, some inflationary symptoms have again appeared.

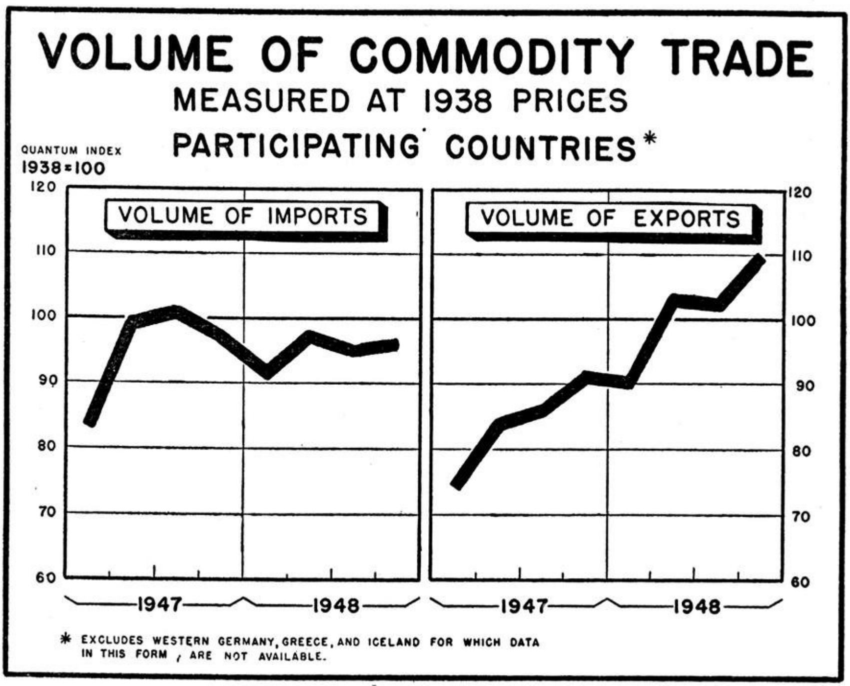
The European Recovery Program has made an enormous, quite possibly decisive contribution to the control of inflation in Western Europe. In some small degree the course of financial events has been affected by the ECA's and the OEEC's repeated statements on the matter. There can be no doubt that these exhortations to European governments have influenced their policies. But even where no such influence was exerted, the aid program has had a powerful effect, which is measured, so far as grants-in-aid are concerned, by the accumulation of so-called counterpart funds.

The Economic Cooperation Act wisely provided that the government of each participating country must deposit in a special account amounts of its own currency commensurate with the delivered cost of all goods and services financed by ECA grants in aid. When such goods arrive in the receiving country, they are sold through normal trade channels. The proceeds of these sales are the main source of the funds deposited in the special account, although, in some cases, the deposits have had to be made (under the terms of the ECA's agreements with the country) before the proceeds of the sale of goods have been received.

The operation of this machinery accomplishes two valuable results. In the first place, the people of Western Europe, as private individuals, have to pay for the goods we provide. Businessmen do not receive capital goods or raw materials, and consumers do not receive food or fuel, as gifts. In the second place, amounts of money commensurate with the landed costs of the goods are withdrawn from circulation and held in the special account instead of being automatically paid out again as income. Thus these counterpart funds, so-called because they are the counterparts of the grants-in-aid, constitute a kind of budget surplus and their accumulation has the same deflationary effect that a true budget surplus would have.

The process is relatively painless because the funds are received through the sale of goods instead of having to be collected as taxes. It is deflationary because it soaks up purchasing power which consumers would otherwise be able to spend in other ways. The deflationary effect of accumulating counterpart may, of course, be offset by a budget deficit, or excessive expansion of credit, or other inflationary developments. But the effect is felt nevertheless.


PERCENTAGE OF COMMODITY IMPORTS PAID FOR BY EXPORTS
SELECTED PARTICIPATING COUNTRIES
(PERCENT)
0
20
40
60
80
100
1938
1947
1948 (First 9 Months)
DENMARK
BELGIUM
ITALY
NETHERLANDS
FRANCE
NORWAY
UNITED KINGDOM


VOLUME OF COMMODITY TRADE
MEASURED AT 1938 PRICES
PARTICIPATING COUNTRIES *
QUANTUM INDEX
1938=100
VOLUME OF IMPORTS
VOLUME OF EXPORTS
120
110
100
90
80
70
60
1947
1948
1947
1948
* EXCLUDES WESTERN GERMANY, GREECE, AND ICELAND FOR WHICH DATA IN THIS FORM ARE NOT AVAILABLE.

It was not, of course, intended that these deposits of counterpart funds should be immobilized indefinitely, nor has this been the outcome. Where financial balance has been achieved, or where there is a tendency to deflation, the funds can be used, subject to the approval of the ECA, to finance public projects or they can be loaned by the government in question to private companies to finance private capital formation. Even in countries where inflation is still a threat, they may have to be released if the only alternative to their use is inflationary borrowing by the government concerned from its central bank. But, under such circumstances, their release may be made the occasion for urging the adoption of more effective fiscal policies.

As a result of stronger fiscal policies as well as of increasing output, the volume of exports has generally risen and the ability of Western Europe to pay for imports improved considerably in 1948. The United Kingdom increased its rate of exports over 1947 and, during 1948, attained a level 37 percent above pre-war. Exports from Belgium, Italy, The Netherlands, and Sweden have also increased as compared with 1947. However, French exports to foreign countries are reported to be at the same volume as in 1947, while the exports of Denmark and Turkey actually declined in 1948 as compared with 1947. The total imports of the participating countries continued below pre-war levels during 1948, but imports from the Western Hemisphere, while less than in 1947, still exceeded pre-war rates.

These changes in the volume of trade resulted in some reductions of the current-account deficits during 1948. Of major importance was the narrowing of the large trade deficit of the participating countries with the United States. During the first 11 months of 1948, imports from the United States declined by $1 billion as compared with 1947, while exports to the United States increased by $223 million. It is expected that total earnings from exports to all areas will pay for more than 50 percent of total imports in 1948/49 as compared with less than 40 per cent in 1947.

The improvement of Europe's external position has thus been substantial: the total deficit on both capital and current accounts amounted to $7.8 billion in 1947, whereas the figure for 1948/49 is expected to be $5.5 billion. While a heavy drain on European reserves of $2.1 billion took place in 1947, the 1948/49 deficit will be met almost entirely from ECA funds and those spent by the Army for civilian relief.

There will, nevertheless, be a small but manageable drain on gold and dollar resources. Also, during 1948, the participating countries continued to liquidate dollar investments in the United States. Securities worth about $200 million, primarily from France and The Netherlands, were sold during the first nine months of the year.

In accordance with the terms of the Foreign Assistance Act of 1948 and the bilateral agreements, the participating nations have accepted the obligation to take measures, so far as is practicable, to locate, identify, and put to appropriate use assets and earnings therefrom which belong to their citizens and which are situated within the United States. The information resulting from the United States Treasury's census of blocked assets, taken as of June 1, 1948, has been given to the participating nations. The ECA missions have been instructed to discuss with the governments of the participating countries the problems involved in mobilizing and utilizing these assets. However, existing gold and dollar balances of the participating nations are believed to be no greater than necessary to meet minimum needs and the long-term investments of these countries in the United States are a vital factor in recovery objectives. It is not the policy of the United States Government to force further liquidation of necessary gold and dollar balances, or to force the sale or hypothecation of security holdings.

In early 1948, intra-European trade threatened to contract sharply as the result of the exhaustion of gold and dollar reserves and of credits which had been extended on a bilateral basis among the participants at the end of the war. In an effort to find a practicable alternative to strict bilateral balancing of trade at a very reduced level, an Intra-European Payments Plan was established by the OEEC. Under this plan, part of the dollars received from the ECA by any country which is a creditor in its trade with other participants has to be fully matched by grants-in-aid extended by the creditor in its own currency to the debtor countries. Thus Belgium, which is a creditor in its trade with Western Europe, is receiving $247.9 million from the ECA in 1948/49 but is making grants totalling $207.5 million net to other participating countries. The net ERP aid it receives is, therefore, only $40.4 million.

The position of any country which is a debtor in its European trade is the exact reverse. It receives, in addition to assistance from the ECA, grants-in-aid in European currencies from those participating countries with which it is expected to run a deficit in its balance of payments. Thus, France receives $980.9 million of assistance from the ECA. But it also receives $323.3 million net of aid from other participating countries. Consequently, France will receive a total of $1304.2 million worth of foreign-exchange resources.

Table 1 shows the net ERP aid to be received by the participating countries in 1948/49:

The figures for net aid give a much more accurate picture of the distribution of United States aid to the various countries than the gross ECA dollar figures because they reflect the indirect aid that is supplied to countries such as France which are debtors in their trade with the rest of Western Europe. This may properly be called indirect aid because, although ultimately financed by the United States, it is furnished to the recipient in the form not of dollars to spend in the Western Hemisphere but of other European currencies to cover the debtor's deficits with the other participating countries. Under the Payments Plan, the mechanics of this indirect aid are as follows: it was estimated that for fiscal 1949 France would have a deficit in its trade with Belgium of $40 million. For France it was as important to be able to pay for imports from Belgium as to be able to pay for imports from North and South America. For Belgium, too, the lack of balance in its trade with France constituted a serious problem. Belgium, in order to use its own resources and get along with a minimum amount of aid, wishes to export more to France than it buys in return and must convert this trading surplus into dollars so as to cover its dollar deficit.

Table 1. Net ERP Aid for 1948/49

(In millions of dollars)

	Gross ECA aid (1)	Net drawing rights received (+) or extended (—) (2)	NET ERP aid (col. 1 plus col. 2) (3)
Austria	215.2	+63.5	278.7
Belgium-Luxemburg and Belgian dependent overseas territories	247.9	—207.5	40.4
Denmark	109.1	+ 6.8	115.9
Free Territory of Trieste	17.8		17.8
France and dependent overseas territories	980.9	+323.3	1304.2
Germany: Bizone	410.6	— 6.7	403.9
French Zone	99.2	+ 0.8	100.0
Greece	144.8	+ 66.8	211.6
Iceland	5.2	— 3.5	1.7
Ireland	78.3		78.3
Italy	555.5	— 20.3	535.2
Netherlands and dependent overseas territories	469.6	+ 71.7	541.3
Norway	83.3	+ 31.8	115.1
Sweden	46.6	— 25.0	21.6
Turkey	39.7	— 11.7	28.0
United Kingdom	1,239.0	—290.0	949.0
Commodity Reserve	13.5	—	13.5
Total	4,756.2	0.0	4,756.2

One way of meeting the problem would have been to give France dollars to spend in Belgium. Instead, under the Payments Plan, the United States provides Belgium with $207.5 million in the form of what is called conditional aid. In return, Belgium opens bank accounts totalling $207.5 million worth of Belgian francs. The right to draw upon these bank accounts up to specified amounts is then extended to the debtor countries, such as France. When received by the debtor—France in this example—these drawing rights constitute indirect ECA aid, but do not involve any additional dollar payments by the United States.

The total use of drawing rights to date is approximately at the anticipated rate. However, some countries have not yet used any of the drawing rights made available to them, while others have already reached the maximum. Both Britain and France have already exhausted their quotas of drawing rights on Belgium and have been forced to resume gold and dollar payments to Belgium or curtail Belgian imports. The OEEC plans study and improvement of the payments agreement this spring.

If the further recovery anticipated by June 30, 1949 is achieved, industrial output in fiscal 1949 will be 20 percent above that of 1947 and output of various agricultural products will exceed that of 1947/48 by 10 to 45 percent. The production rates expected by the OEEC at the end of the current fiscal year for major industrial commodities are, as a percent of 1947, as follows:

Refined oil	172	Potash	129
Lead	193	Nitrogenous fertilizer	127
Pig iron	168	Wood pulp	123
Steel	150	Copper	109
Zinc	145	Coal	114
Tin	100	Electric-power generating capacity	109
Aluminum	137		

Much of the increase in output will be devoted to capital formation. In fact, gross investment in 11 countries for which estimates are available will total roughly the equivale[illegible]0 billion, equal to six or seven times the amount of dollar ai[illegible]s being provided to these countries. Gross investment will equ[illegible]out 20 percent of gross national product. Consumption per person will be appreciably higher than in 1947 but still well below pre-war. The expectation of the participating countries regarding particular categories of consumers' goods is as follows:

	Consumption per person in 1948/49: As percent of 1935-38	As percent of 1947
Bread grains	90	119
Meat	65	118
Fats and oils	74	115
Sugar	81	110
Textiles	80	100

The improvement varies greatly among countries. In the Bizone, for example, the consumption of fats and oils is expected by the OEEC to increase 100 percent over 1947 but this will still leave consumption 55 percent below that of 1935-38.

Much of Europe's recovery in 1948 is directly attributable to American aid—to the food, raw materials and other goods, the purchase of which was financed with aid funds. But American aid did more than this. It stimulated self-help of a magnitude many times greater than the amount of aid given; it encouraged renewed efforts to institute fiscal and monetary reforms and to increase production and expand intra-European trade; and it strengthened the effectiveness of mutual help and cooperation among the participating countries.

Perhaps the most important achievement of the American aid program is that it induced the European countries to embark on the cooperative efforts that are essential for recovery. Coming as they did at the height of a financial emergency, the first operations under the ERP naturally centered on the provision of American aid and its distribution among countries. But as the OEEC grew in strength, the degree of cooperation in Europe steadily increased. The work of the OEEC in drawing up the 1948/49 program and the establishment of the Payments Plan have already been discussed. The OEEC's preliminary analysis of the long-term country programs is a remarkable act of constructive self-criticism, out of which may emerge a truly integrated program of economic development. It is activity of this type which holds the real promise for Western Europe's eventual recovery.

B. THE SECOND PHASE OF RECOVERY

To justify the aid program for the coming fiscal year, it is not only necessary that the European countries show a record of good performance in 1948/49, but also that their policies should be such as to make recovery attainable by mid-1952. By that time, the European countries must balance their international accounts without extraordinary assistance. To accomplish this, they must effect major structural changes in their economies.

At the close of the war, the most pressing task for the countries of Western Europe was one of relief and offsetting the immense wartime destruction and the large arrears of maintenance and replacement that accumulated during the war. The production records of industry and agriculture up to the present time testify that, despite setbacks such as occurred in 1947, great progress toward reconstruction has been made. Although arrears of maintenance and replacement have not yet been made up, transportation has been restored, industrial production is above pre-war levels except in Western Germany, Greece, and Italy, full employment exists in most countries, and there has been a substantial improvement in intra-European trade. Reestablishment of financial stability has been achieved in many countries, but remains the outstanding problem in others. While this first phase is by no means complete, the Western European countries are now in a position to undertake the even more difficult and complicated task of expanding and modernizing some industries and withdrawing resources from others in order to adjust to the basic changes which have occurred in the world economy.

Europe's difficulties have not arisen entirely from the war. For years before the war, the export industries of Europe were losing markets to newer or more efficient producers in other parts of the world. Western Europe was able to maintain its traditional living standards only because it possessed a large income from foreign investments and substantial "invisible" earnings and because it could buy its imports of food and raw materials cheaply from the outside world. The war has deprived Western Europe of much of its investment income from overseas and has worsened its terms of trade with the primary producing countries. Changed political conditions have deprived Western Europe of many of its more important markets and sources of supply in Eastern Europe and the Far East. Throughout the world, it faces more intense competition with the industrial products of more recently industrialized countries, notably the United States. At the same time its population has increased by 20 million since 1938 and its requirements for imported foods and raw materials are correspondingly increased.

If Europe is to overcome these handicaps and become self-supporting in the post-war world with anything like its pre-war standard of living, basic changes must be made, as the OEEC points out, to adapt its economic structure to its new trading position in the world. It must modernize its old industries and create new ones. It must improve its production and management techniques, and pay greater attention to product design and new product development. Increases in consumption which would be at the expense of exports or capital formation and which could not be supported unaided in mid-1952 must be discouraged. Investment must be stimulated in those fields where it will contribute most and soonest to the balancing of Western Europe's external accounts. Finally, there must be a vigorous drive for new markets for European exports, especially in dollar areas. European producers must adapt their products to the needs of those markets; they must build up adequate sales organizations and every effort must be made to stimulate imagination and resourcefulness in sales promotion.

The nature of the problem precludes any simple formula for success. So long as conditions of financial and monetary instability prevail in Europe, the shortage of dollars and the lack of balance in international trade will persist. If earnings from abroad are to be raised to a satisfactory level, Europe's exports will need to be widely diversified and its attractions as a cultural and tourist center fully exploited. Greater emphasis on the development of overseas territories will bring not only the advancement of colonial populations along with that of the mother countries, but in addition will provide new sources of supply for Western Europe and new outlets for European goods. The overseas territories can become major dollar earners if additional exports, especially goods of the kind that buyers in the United States desire, can be developed to the mutual benefit of the dependent overseas territories and of Western Europe.

In its Interim Report on the long-term program, the OEEC has done a signal service in urging the European countries to move as rapidly as possible from the physical reconstruction phase to the readjustment phase of recovery since time is short and the recovery process is expected to be completed by mid-1952. It has stressed that the attainment of external balance, particularly with the Western Hemisphere, is of first importance and that other desirable objectives may have to be postponed. Consequently, the OEEC has warned the participating countries that they may have to be content with little or no increases in their standards of living by 1952/53 if they are to achieve external balance. The OEEC itself believes that most countries will be fortunate if they are able to achieve by mid-1952 a general standard of living at best only 5 or 10 percent below their pre-war standard.

The problems of adjustment now confronting Europe include questions of money and finance, production and investment, trade expansion, overseas territorial development, consumption levels and the distributive system, and further measures of economic cooperation.

1. Monetary and Financial Policies.

Both the ECA Act and the bilateral agreements concluded between the ECA and each participating country stress the attainment of monetary stability in the participating countries as one of the major prerequisites for the success of the program. This view is fully shared by the

OEEC. It is generally realized in Western Europe that the participating countries will not be successful either with their production or their trading plans unless fiscal and credit policies are adopted which will remove the threat of inflation.

At the present time, several of the more important European countries are in a state of open or suppressed inflation. In the second half of 1948, the price level in France rose at a rate which made it extremely difficult for that country to improve its international trading position. In the Bizone, the currency reform of July 1948 and other efforts to achieve price stability had substantial beneficial results but, unfortunately, new inflationary forces have since developed. In countries such as the United Kingdom and Norway, strong inflationary pressures exist but, because of direct price controls, subsidies, rationing, and the allocation of commodities, they find very little reflection in commodity prices. Both kinds of inflation increase the demand for imports. Moreover, suppressed inflation diverts resources to non-essential and non-productive uses and open inflation diminishes incentives to export. Thus financial instability of either kind aggravates Europe's difficulties and makes a satisfactory solution of European problems impossible until it is removed.

The budgetary and monetary weaknesses of most European countries appeared as a direct consequence of the war and its aftermath. Budgets are burdened with heavy reconstruction expenditures and with heavy investment programs designed to increase productive capacity. International tension prevents a cut in defense programs. While the demands on the national budgets have been increasing, the ability to finance them through taxation and borrowings from private savings has not increased correspondingly. It is unfortunate that some of the European governments find great difficulty in undertaking the unpalatable measures in the field of taxation and credit control necessary to achieve monetary stability, or to restore the effectiveness of their tax administrations.

Unlike other problems facing Europe, the establishment of monetary stability is a matter largely within the control of the individual governments themselves. As soon as this problem is tackled aggressively and courageously, inflation can be brought under control in those countries in which it now is a basic problem. Otherwise, the continued provision of United States aid may well act as a subsidy which allows governments to delay the reforms necessary for achieving a status of self-support.

The proper use of counterpart funds can be an important factor in assisting participating countries to control inflation. However, the counterpart funds can only be used effectively as an anti-inflation weapon when they form a part of appropriate general fiscal and monetary policies adopted by the participating countries. The action taken with respect to the use of counterpart funds must vary from country to country depending upon economic circumstances. In the case of France, the ECA agreed to the release of counterpart funds at the same time as the French Government undertook on its own initiative to work out plans to reform its tax structure and to keep governmental expenditures within non-inflationary limits. It is too early to say whether stability will result, but the French Government is doing its best to achieve monetary stability in exceedingly difficult circumstances. Italy, on the contrary, is no longer suffering from inflation, but it is feared that unless certain monetary and tax reforms are undertaken, recovery might again be retarded by a renewal of the inflationary pressure experienced in 1947. Consequently, the ECA has agreed to the Italian proposal to use counterpart funds for financing the cost of recovery projects while at the same time the ECA has encouraged the Italian Government to undertake needed fiscal reforms. Another example is the United Kingdom where inflationary pressures are progressively reduced by using the counterpart fund for the retirement of a portion of the national debt held by the Bank of England.

2. Trade and Exchange-rate Policies.

An increase in production, although essential, will not by itself balance Europe's international accounts by mid-1952. It is important, therefore, that the European countries adopt the positive trade policies which are needed to secure permanent markets for their exports.

While export markets depend in part on conditions beyond Europe's control, there is, nevertheless, much that can be done to create and capture markets. Many European producers tend to cling to the tradition of letting their goods sell themselves and they do not pay enough attention to designing their products for the particular markets in which they hope to sell them. Moreover, many European businessmen and, in some cases, their governments seem more inclined to seek protected markets than to face the adjustments necessary to meet competition.

As a result of its analysis of the long-term plans of the European countries, the OEEC concludes that Europe and its overseas territories can only solve the dollar problem by meeting competition and selling more in the dollar area itself, rather than by resignedly turning to soft-currency areas and hoping that somehow such currencies will be convertible into dollars. OEEC's conclusions on this subject are worth quoting from its Interim Report on the European Recovery Program:

> "Unless Europe's competitive power can be made much stronger than it is now, these estimated exports to the United States will not be achieved. If enough vigour is applied, the estimates might be exceeded. Western European exports of manufactured goods to the United States are only 1% of the total United States market for manufactures, so that the opportunities are very considerable—and the response to a vigorous trade policy may be much larger than in markets which are already largely supplied by Western European exporters. It is in this market that is to be found the greatest opportunity for an expansion of the exports of Europe's very high-quality produce."—*Section* 215

> "It has already been estimated that it is within Europe's power to increase its export earnings very considerably above those which are likely to be obtained on present policies . . . Western Europe

can regain the markets lost—and win new ones. But a start must be made at once; and the goods must be competitive. European manufacturers must compete in quality, in service, in promptness of delivery, in attention to the needs of customers, in price . . . An expansion of exports of the magnitude required can be achieved only by some restriction of Europe's demands, whether for investment or consumption, for the goods it is able to produce. Careful reexamination of the investment programmes is needed. No great advance will be possible without control of inflation."—*Sections* 259, 260, 261

It is not necessary for each of the participating countries separately to achieve an exact balance in its account with the Western Hemisphere for the group of participating countries as a whole to become independent of external assistance. However, it is necessary for every country individually to make the greatest possible contribution toward an ultimate general balance by efforts to expand its exports to the dollar area. Western Europe can never become self-sustaining if each country plans to balance its external accounts by earning a surplus with its neighbors which it then expects to convert into dollars to cover its deficit with the Western Hemisphere. The OEEC Interim Report shows that this danger is a real one; the participating countries, with but two exceptions, show a deficit with the Western Hemisphere in their balance of payments for 1952/53 which in many cases is to be offset, at least in part, by a surplus with the other participants. It would be quite unrealistic for any participating country to assume that, by that time, it will be able to cover any substantial dollar deficit by this means.

Nevertheless, the structure of the world economy simply will not permit a solution by the bilateral balance of each European country's trade with every other country in the world without wasteful and unnecessary diversion of trade from economic channels. Some participating countries, especially if their dependent overseas territories are included, can become net dollar earners, at least on a moderate scale. Their position can ease that of other countries that cannot possibly balance their dollar accounts directly. Quite aside from the participating countries, it is to be expected that certain areas will again become net earners on a sizeable scale, as Southeast Asia was before the war. The West European countries will have to develop a trade surplus with such regions so that their accounts may be balanced through triangular trade relationships. The results cannot be achieved in a world in which bilateral balancing is the rule. While it may not prove possible for some time to attain widespread currency convertibility and the removal of trade restrictions, maximum progress in these directions remains an objective of United States foreign economic policy.

One of the present difficulties of intra-European trade is that the payments plan is superimposed on the existing system of bilateral agreements. It is essential to a permanent revival of European trade on a multilateral basis that strenuous efforts be made to revise and improve European trade agreements and to move from the present payments mechanism toward a more permanent system of automatic multilateral payments.

Inconvertibilty and over-valuation of currencies also mean that exchange rates and prices depart considerably from those that would prevail in a multilateral trading system. The OEEC and the ECA have already interested themselves in some of the more urgent price problems because the expansion of trade is hampered at present by the high prices charged for coal, steel, and other essential commodities by some of the principal exporting countries in Europe.

The problem of export prices and markets is, of course, intimately related to exchange rates. A devaluation of many European currencies with respect to the dollar is one of the steps which may be necessary during the course of the program to reduce the participating countries' deficit with the Western Hemisphere. Exchange rates should be such as to make it profitable for producers to sell more and more goods abroad, particularly in markets where they can earn dollars or currencies freely convertible into dollars.

The same degree of adjustment with respect to the dollar would not be required for all of the currencies concerned. In fact, appropriate adjustment of rates among such European currencies would assist the growth of intra-European trade and facilitate the establishment of equilibrium among the participating countries. Whether these adjustments are accomplished one by one or through a simultaneous change in the values of several European currencies, they should look toward a common objective. The objective is the creation ultimately of a sound structure of rates.

It is recognized that currency depreciation may increase domestic prices, and consequently internal costs, at a time when inflation threatens to retard production. In general, therefore, devaluation should not be undertaken until a reasonable degree of internal monetary stability has been achieved. Such stability must be achieved mainly by appropriate fiscal and credit policies, but in certain cases might also be facilitated by a modification of the existing exchange rate. In the long run, rigid adherence to present exchange rates is no solution and may, in certain cases, interfere with the achievement of general monetary stability by making the domestic market more attractive than foreign markets and thereby increasing the country's external deficit and contributing to a loss of monetary reserves. Countries suffering from strong inflationary pressures are therefore faced with a dilemma which can only be resolved by a vigorous and steady attack on all of the basic causes of monetary instability.

Unilateral action toward more liberal trade policies and practices is difficult for individual countries to undertake in the present state of European recovery. Cooperation is essential if actions are to be effective. In addition to the traditional methods of cooperation, there are welcome signs that the participating countries are exploring new devices for creating freer trade in Europe. The proposed economic union of the Benelux countries is in an advanced stage of negotiation. France and Italy are endeavoring to work out a customs union, and discussions about a customs union have recently begun among the Scandinavian countries. Nevertheless, disparity in the degree of monetary stabilization presents a real impediment to the immediate achievement of the closer type of economic union, as distinct from customs or tariff unions.

3. East-West Trade.

The ECA has always believed that European trade cannot be brought satisfactorily into balance without a considerable expansion of trade between Eastern and Western Europe. The East of Europe has been a traditional supplier to the West of coal, timber, grains, and other raw materials, and the West has traditionally supplied the East with industrial products. The series of trade agreements between the countries of Eastern and Western Europe is an indication that both areas are interested in increasing the volume of trade. It is estimated that the share of Eastern Europe in the total trade of Western Europe was only 5 percent in 1948 as compared with 10 percent in 1938. However, the real significance of this trade was greater in 1948 than the proportion would indicate, since it enabled Western Europe to obtain imports of vitally needed commodities, mostly in exchange for its own exports.

4. Overseas Development.

As the difficulties of achieving balance in the international accounts of the European countries have become more apparent, increasing attention is being given to the development of the dependent overseas territories of the participating countries. In these territories, there are still vast unexplored resources which can contribute greatly to the advancement of the native populations and to European recovery.

The overseas territories can serve as new sources of supply for the European countries and can provide new markets for their products. They are potentially one of the most important and stable dollar earners, possessing considerable mineral resources for which there will be an ever-increasing demand in the Western Hemisphere. The ERP investment program should contain a substantial share for these areas and should include the same kind of coordination as is required for the restoration of the European economies themselves. This necessarily implies that there should be equal opportunities for trade and investment in the dependent overseas territories open to all participating countries. The OEEC has already given some attention to the question but so far no coordinated plans have been developed.

5. Investment and Production.

The increases in production on which the whole recovery program depends are expected to result in large part from heavy capital investment by the European countries during the ERP period. However, the results of expanding industrial capacity for both primary products and finished goods will not be felt immediately to any considerable extent. On the average, the participating countries expect to devote about 20 percent of their gross product to investment, of which a part will be in their overseas territories. The objective of this investment program is not only to restore the damage done by war and to make up for years of deferred maintenance and replacement, but also to modernize and improve the whole structure of European industry. Largely as a result of this investment, the productivity of labor is expected to increase by about 15 percent during the next four years.

The European countries do not expect that private savings will be sufficient to finance their investment programs. Many of them foresee the need to supplement corporate and individual savings by a budget surplus if private investment programs are to be executed without inflationary effects. Others plan to cover most of their total investment out of current governmental revenues. It is possible that some of the national investment programs, as they are now drawn, will place too great a strain on the fiscal systems and will therefore result in inflationary pressures. The feasibility and success of the investment program depends on the willingness of the Europeans to impose on themselves fiscal policies that are consistent with the goals that have been set.

Should inflationary pressures become too serious, it may be necessary to revise and in some cases to curtail investment plans and to adopt appropriate fiscal and credit policies. The actual investment realized under conditions of inflation will be quantitatively and qualitatively of less value than that which could be achieved by more modest programs in a stable financial situation.

There are important fields where the European countries can increase their productivity without resorting to heavy investment. For instance, production can be increased in many cases by repairing and adapting existing equipment. Agricultural output can be raised without great capital outlays by better management, increased use of fertilizer, and similar means. In some cases greater specialization within the European area may promote efficiency. Finally, it is quite possible that the total export goal of Western Europe could be more easily reached with a greater diversification of production than is now planned. This would involve greater emphasis on finishing industries and small-scale establishments. A very considerable effort should be made by the participating countries to improve their overseas marketing organizations and to develop new products which will meet the needs of their customers and which can be competitively priced.

That there are serious anomalies among the individual national investment programs is not open to doubt. The OEEC Textile Committee has concluded that if all the countries carried through their plans to increase textile capacity, it would be practically impossible for them to sell their products at satisfactory prices. Similarly, the plans for the steel industry, the fishing industry, and oil refining are all uncoordinated and may be excessive. If the anomalies that now appear in the investment programs were eliminated, the reductions which might be necessitated by inflationary pressures could be achieved with maximum benefit. Such a screening of investment plans requires a determined effort in order that the limited resources of OEEC countries shall not be wasted.

The policies required to accomplish the second phase of the recovery program emphasize the need for cooperative effort in the future. The

OEEC is beginning consultation on the investment programs for Western Europe and will press for the adjustments that are needed in the European trading pattern. After the determined action that the OEEC has been able to take during the first trying months of its existence, there is good reason to expect that it will prove to be an effective instrument for European cooperation.

While primary responsibility for coordinating the recovery policies of the participating countries must rest with the OEEC, the ECA has special opportunities for encouraging cooperation among the European countries. While the ECA cannot and should not expect that the mere provision of aid entitles it to prescribe the policies that Europe should follow, it can administer its aid program in such a way as to provide positive incentives for the attainment of a workable economic system in Europe. Nevertheless, the ECA is convinced that European recovery cannot be achieved by virtue of the mere receipt of dollar aid. While American aid is an indispensable part of the European Recovery Program, it is only a part. The contribution of Europe to its own recovery must be immeasurably greater than the assistance which this country is able to provide.

C. SUMMARY OF PROGRESS BY COUNTRIES

The analysis of recovery progress has thus far been devoted to examining the situation of Western Europe as a whole. The evidence of general progress that is there presented is substantial; even more impressive testimony may be had by examination of the results in individual countries.

First, however, it will be useful to identify certain typical situations and problems which are common to many of them. The several countries are in different phases of recovery. The impact of the war took varying forms. There are considerable differences in the means they have chosen to achieve recovery. Consequently, the situation of each country is unique, as is the special combination of circumstances in that country that makes outside assistance necessary.

Nevertheless, there are certain patterns that recur. The situations of all of the countries may be more readily understood in terms of a comparatively few major problems or circumstances. It would be a dangerous over-simplification to identify a single leading cause in the case of each country to which its present economic troubles can be assigned. But it will be possible in discussing most of the countries to characterize the economic situation of each in terms of the standard patterns that may be observed in Europe.

Four such patterns may be usefully distinguished. First, in a few countries, what has been described above as the first phase of recovery is still far from complete, and the pressing economic problem is that of bringing production and trade closer to pre-war levels, maintaining at least a bare minimum standard of living, and achieving or maintaining internal financial stability. In these countries the problem is still largely one of production, repair, and rehabilitation. It has hardly yet been possible for them to make a start on the structural adaptations of their economies that are necessary if they are to become self-supporting in the post-war world. Greece and the Bizone are among the countries in which this pattern is probably still predominant, though it is probably giving way rather rapidly to another in the case of the Bizone. As the mention of these two examples suggests, the persistence in certain places of this pattern, which was typical of all the West European countries in the immediate post-war period, is associated with special political circumstances which have retarded or prevented the achievement of domestic and political tranquillity. The countries in which this pattern is predominant are the ones least advanced along the road to recovery.

Second, in a number of countries which are much further along in their progress toward recovery, and in which the first phase is virtually complete and the second well started, a very different pattern emerges. Typically, these are countries in which a strong and effective government administration either has been re-established as in Norway and The Netherlands or was never impaired during the war, as in the United Kingdom. In most of them, there is a high degree of unity of purpose. On the other hand, most of the countries in which this pattern obtains have to achieve quite major structural economic changes in order to become self-supporting and are permitting and encouraging an extremely high rate of capital formation as a means of so doing. This high rate of capital formation is the clue to their situation at this time. Heavy capital investment, whether in private enterprises or in public undertakings, is inflationary. The attempt to contain inflationary pressure explains the other elements of this economic pattern, in particular the extremely high rates of taxation and the extensive use of direct economic controls.

Third, the economic situation of several countries is beginning to be dominated by a problem which will become the major preoccupation of most of the participating countries as recovery moves forward. It is not that of the first phase, of bringing production and trade somewhere near pre-war levels, nor that of modernization, reequipment, and the creation of new industries. It is rather the problem of the trading position. At least two and perhaps three of the participating countries are within sight of achieving over-all balance in their international accounts. If all goes well, they should be able a year from now to sell abroad enough goods and services to pay for all that they need to import from abroad. But, typically, these countries will be able to balance their over-all trade accounts only by having a trade surplus with other European countries as large as their trade deficit with the Western Hemisphere. Belgium and Ireland are the countries for which this problem is probably the most acute. Ireland must import animal feed from the Western Hemisphere, and Belgium must import food and raw materials. Ireland's markets are almost entirely within Europe, and Belgium has never been even close to balancing its own trading deficit with the Western Hemisphere except by converting its surpluses with European countries into dollars. Their immediate need is for a continuation of this arrangement or some equivalent thereof. In the longer run their problem is one of adaptation.

Finally, there are at least two of the participating countries in which the dominant economic problem takes none of these forms but where the basic need is for economic development. Turkey is perhaps the clearest example. Greece will graduate into this group when the civil war is at an end and the recurring threat of inflation is finally over. Wherever the need for development is a major part of the problem, it is significant that the development within the country will be of help to recovery in the other participating countries as well.

In applying these patterns to the individual participating countries, it must always be remembered that a single pattern rarely fits neatly all the elements of the situation. The Bizone is still in the first phase, but recovery is proceeding rapidly and the character of the problem may soon change. The economic situation in The Netherlands is largely determined by a heavy investment program, as it is in Norway, but The Netherlands trading position is quite similar to that of Belgium and, as The Netherlands comes closer to balancing its over-all foreign trade, it will encounter the problem of converting a surplus in trade with Europe into dollars to cover a dollar deficit. In Belgium, on the other hand, where the trading position is today the dominant problem, the need for heavy domestic capital formation may soon come to overshadow it.

In two major countries, France and Italy, the situation is particularly complex. France has made notable progress since the war with a heavy investment program, the Monnet Plan. In this sense, it is well into the second phase of recovery. But in the meanwhile, inflation has not yet been brought effectively under control. Italy is a startling contrast. There the post-war inflation was so drastically curbed and broken that a business depression ensued from which Italy is only now recovering. This internal deflation, among other circumstances, has impaired capital formation. Thus, Italy is a country that has solved its problem of internal financial stability but has scarcely made a start with the structural adaptation of its economy.

In the discussions of the progress of recovery in the individual countries which follow, there will be frequent references to such of these patterns as apply to the country under consideration.

1. Austria.

The difficulties faced by Austria in establishing a self-supporting economy began at the end of World War I. Until 1918, Austria was the key component of a well-balanced, large economic unit; independent Asutria became a small republic which could neither supply its own food requirements and raw materials nor consume the products of its industry. After a tremendous struggle and period of adjustment, Austria had just about overcome its economic unbalance in 1937, the year before the Anschluss. Since then the situation has been greatly aggravated by the problems stemming from World War II and by the continued four-power occupation.

Lacking sufficient capital to expand production to pay for necessary imports, and hampered in its search for markets by trade barriers, Austria systematically exploited its natural resources, and attempted to maximize its invisible receipts. Austria became one of the best-favored vacationlands, attracting a large number of tourists. Capitalizing on its central European location, Austria developed considerable income from trade and transit traffic. By 1937, the deficit on merchandise account was almost balanced by income from tourist services and revenue from assets retained in the countries which were formerly part of the Austro-Hungarian Empire.

In March 1938, Austria was annexed by Germany and its economy integrated with the German economy. Some lasting economic gains resulted, but the emphasis on war production considerably unbalanced industry and arrested agricultural development.

The war resulted in widespread damage. With the surrender, Austria was left with a disrupted political structure, a prostrate economy, and with no foreign assets on which to base a new start. This was aggravated by removal of plant and equipment by the Soviet forces after the war ended.

During and immediately after the war, agriculture suffered heavily, and started to improve only with the beginning of United States aid. Even now domestic production covers only 55 percent of current consumption. From the very low post-war levels of 1200 to 1500 calories per person a day, the basic ration has risen to 2100 calories, though average non-farm consumption, including supplemental rations and unrationed foods, is about 2500 calories.

From a virtual standstill in 1945, industrial progress in 1946 was slow; in 1947, Austria's industries began a gradual recovery.

In 1948, ERP aid gave the Austrian economy a major impetus. The Austrian request and aid being made available in 1948/49, as well as the request and the ECA estimate for 1949/50, are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Austrian request for gross dollar aid	339.3	217.0
OEEC recommendation of gross dollar aid	217.0	[a]
ECA estimate of gross dollar aid	215.2	197.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

The net ERP aid to Austria in 1948/49 will be $278.7 million. As a result of this aid, industrial progress during 1948 was very substantial. Industrial production rose from 44 percent of the 1937 rate during March 1947 and 62 percent during December 1947 to 98 percent by October 1948.

This degree of recovery was achieved in the face of very considerable political difficulties. Although regarded as a liberated nation with a functioning government of its own, Austria remained under quadripartite occupation. Basic differences of policy between the Western Powers and the Soviet Union have made it impossible to conclude an Austrian treaty which would enable that country to enjoy full freedom of action in dealing with its economic problems. Moreover, an important part of Austria's economic assets, particularly petroleum, is under Soviet control.

Despite the improvement in industrial production which has been achieved since the summer of 1947, Austria's foreign accounts remain badly out of balance. While income from transit traffic and tourism may be expected to recover, Austria's foreign investments have been lost almost completely and other invisible earning power has been greatly diminished. Requirements for essential imports of food, fuel, and raw material remain well in excess of the present export potential, in spite of the fact that exports in the first nine months of 1948 were at more than twice the 1947 rate.

During 1948 the ERP has provided fuel and raw material, without which Austrian industry could not operate, and the capital goods needed to initiate the long-range investment program. Fuel and raw-materials imports have permitted a sharp and steady improvement in industrial production during the past year. The investment program will, of course, take longer to become effective but it is prerequisite to Austria's achievement of self-support.

2. Belgium-Luxemburg.

ECA aid to the Belgium-Luxemburg Economic Union seeks to enable it to contribute more fully to the recovery of other participating countries by maximizing its sales to them of scarce goods such as steel, coal, and coke. In return for extending drawing rights to other countries, Belgium receives an equal sum in dollars with which to pay for its own imports from dollar areas.

Belgium-Luxemburg has made progress both materially in production and consumption and administratively in attaining monetary stability. It has been able to eliminate most direct government controls over the economy. Fortunately, Belgium-Luxemburg is not burdened with major problems of physical reconstruction or of overcoming wartime losses of foreign assets to the same extent as some other participants. This is not to imply that the post-war problems and difficulties of the two countries are now solved or are no longer of importance. Such could not be the case for an area so dependent on trade with the rest of Europe.

Out of the total aid of $250 million recommended by the OEEC for 1948/49, $207.5 million is in the form of conditional aid and is to be matched by Belgian net exports to other participating countries. Thus, the total amount of goods available to Belgium-Luxemburg will not be reduced by conditional grants; for every import from the Western Hemisphere paid for by the United States there must be a corresponding export of Belgian goods to other participating countries. Belgium, in effect, earns its dollar assistance by such exports.

Belgium-Luxemburg receives real assistance through such conditional grants. Participating countries no longer possess substantial gold or dollars of their own which Belgium can earn by the sale of its exports and, consequently, Belgium would not have dollars with which to finance its purchases from the Western Hemisphere. Conditional aid enables Belgium to exchange its traditional export surpluses, such as steel, for its traditional import requirements, such as Western Hemisphere foodstuffs and raw materials.

Belgium also has the problem of increasing capital investment to permit a long-delayed expansion of public works and a rehabilitation of industrial plants. Belgium wants to finance this investment without a corresponding inflationary increase in money supply.

The Belgian authorities have placed primary reliance upon an increase in savings and revival of the private capital market as the means to this end. In recent months there have been encouraging indications that this hope was being fulfilled. It is possible, however, that without more positive action by the Government the volume of savings will not support an adequate investment program. Belgium rightfully prides itself on its free enterprise system, which it so successfully maintained through the immediate postwar adjustment period, and will be reluctant to invoke direct controls. The alternative, which is wholly consistent with free enterprise within the country, would be to use the weapons of tax policy and, possibly, exchange control to divert more domestic resources and foreign exchange away from consumption and make them available to finance capital formation.

To date, the ECA loan of $57.4 million has helped with the problem of capital formation. But most of the ECA aid to Belgium is in the form of conditional grants. Thus, its main function is to allow Belgium to earn in Europe the dollars to pay for imports from the Western Hemisphere.

The totals of the first two annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions	of dollars)
Belgium-Luxemburg request for gross dollar aid	358.2	250.0 [a]
OEEC recommendation of gross dollar aid	250.0	[b]
ECA estimate of gross dollar aid	247.9	200.0

[a] Minimum request; maximum asked was $400 million.
[b] National submissions for 1949/50 not yet reviewed by OEEC.

During 1948/49, Belgium-Luxemburg is to extend $218.5 million of drawing rights and to receive $11 million, making a net extension of drawing rights of $207.5 million. Net ERP aid for 1948/49, therefore, is estimated at $40.4 million.

3. Denmark.

Almost wholly lacking in important natural resources, Denmark achieved before the war a balanced economy by processing imported raw materials and advantageously disposing of the finished products in the world market. This equilibrium was destroyed by the war and its aftermath.

The Danes for decades have been engaged in processing imported raw materials in order to export high-quality processed foods and specialized equipment to pay for the imports they consume at home. Denmark bought abroad what it could not produce cheaply at home and sold its specialties in world markets. Danish industry and agriculture were geared to competition in the world market on a cost and quality basis. Butter, eggs, and bacon were the major exports; their largest market was in England. A world-wide market existed for Danish industrial specialties such as diesel engines, slaughterhouse and dairy equipment, and certain kinds of precision instruments and electrical equipment. By converting its earnings especially sterling, into dollars, Denmark could pay for its imports from the Western Hemisphere.

At the close of the war, Denmark immediately had to increase the general supply of goods. Most businessmen had been unable to maintain their plants, and business inventories were exhausted; at the same time, there was a pent-up demand for consumers' goods. Denmark also had to supply food, shelter, medical care, and clothing to nearly 250 thousand German refugees, largely from the Baltic provinces, the last of whom have only now returned to Germany.

In the meantime, Danish industry and agriculture were at a low ebb and the demand for goods could not be satisfied from Danish resoures Denmark suffered very little war damage, except to its fleet, but the decline in animal numbers, especially chickens and pigs, was considerable. As a first step in restoring the capacity to earn foreign exchange to pay for essential imports, Denmark placed orders abroad for ships and shipbuilding materials and for feed. By the end of 1948, the tonnage of the Danish fleet was nearly as large as before the war, though the average age of the vessels was greater. The process of building back livestock numbers to pre-war levels was begun as soon as possible but was interrupted by the severe winter of 1946/47 and the disastrous drought of 1947.

The import program in 1946 was adequate to get Denmark well started on the road to recovery though the increase in agricultural production was interrupted by the drought of 1947. Industrial production rose from 74 percent of pre-war levels in 1945 to pre-war levels in 1946. In 1948, it was at least 22 percent above pre-war and was operating at close to capacity levels. Consumer standards improved quickly, and consumption per person is now slightly above pre-war levels.

Denmark's ability to maintain a surplus of imports over exports in 1946, upon which Danish recovery depended, was made possible primarily by a large credit from the United Kingdom and smaller loans from Sweden and the Export-Import Bank. In 1947, the Bank of England refused to extend further credits. Imports, which had always been well controlled to prevent the importation of non-essentials, were subjected in 1947 to drastic curtailment. The over-all deficit for 1947 was only half that of 1946. By the end of 1947, Denmark had brought its balance of payments with the sterling area into equilibrium and even had a small surplus during the first half of 1948. The fact that sterling is no longer convertible into dollars makes it impossible for Denmark to use its sterling earnings to cover its dollar deficit as it did before the war.

The totals of the first and second annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Danish request for gross dollar aid	149.9	110.0
OEEC recommendation of gross dollar aid	110.0	[a]
ECA estimate of gross dollar aid	109.1	109.0

[a] National submissions for 1949/50 not yet reviewed by OEEC.

The net ERP aid for Denmark in 1948/49 is estimated at $115.9 million.

There is still an over-all deficit, however, chiefly in dollars, with the Western Hemisphere. This deficit exists even though total imports from all sources are only about three-fourths of the pre-war volume. The Western Hemisphere deficit is due in part to the loss of the German market; the United States has replaced Germany as a source of supply, but not as a market for Danish goods.

The inflationary threat that has persisted since the war has been vigorously and effectively combated by the Danish Government. Subsidies have been used to hold down the cost of living and wages have not been allowed to get out of hand. There have been no important strikes recently and existing wage contracts were renewed for a two-year period in 1948. While individual Danes were spending previous savings as well as current earnings throughout 1946 and 1947, the Government has consistently had a large budget surplus and interest rates have been tightened.

Consumers are not able to choose freely the kinds of things they would like to buy with their money. A tight rationing of commodities like coffee, textiles and clothing has been maintained to hold down imports; domestically produced goods like butter and bacon have been rationed to increase exports. Except for the acute shortage of fuel, however, present consumption levels have involved little real hardship.

Investment in agriculture, industry, and shipping has been at a high level. The merchant fleet has been restored, and the fishing fleet is better than it was before the war. Inventories appear to be large enough to permit a smooth flow of production. Net investment in 1948 was half again as large as it was in 1946 and 1947, while the proportion of the net investment made possible by foreign financing has declined from four-fifths of the total in 1946 to two-fifths in 1948.

Without ECA aid in 1948, Denmark would have faced a serious economic crisis. It would have been necessary to limit imports of raw materials from the Western Hemisphere so drastically that the recovery of Danish agriculture would have been retarded and many Danish industries would have had to close down. Under the conditions prevailing at the beginning of the ERP there is no reason to believe that Denmark could have recovered from such a depression by means of her own resources.

4. France.

France has faced the enormous task of reconstruction and rehabilitation with part of its national wealth destroyed and its productive capacity impaired. Further, Communist efforts to sabotage the ERP have obstructed attempts to combat inflation, and resulted in a series of strikes which have exacted a heavy cost in lost production. Finally, the inflation has distorted the price structure, reduced essential production, lowered productivity, absorbed export-producing labor and materials, and in general hindered efforts to ensure the most effective use of resources.

Despite all this, the recovery achieved since liberation has been impressive and suggests strongly that the elements of full recovery exist.

France's recovery problems, antedating World War II to some extent, were seriously aggravated by that conflict and its consequences. The French economy of the thirties was characterized by a low rate of economic growth, and an under-utilization of the labor force and of the non-agricultural capital plant.

Repeated devaluation bred distrust of the franc both abroad and at home, resulting in some flight of capital, and, since the end of the war, in a reluctance to part with goods in exchange for currency, and an unwillingness on the part of French businessmen to make long-term plans or commitments.

The political situation has been unstable. The feeling of military insecurity in the years between the wars, the German occupation, and the international tension of the post-war period have aggravated this problem.

Since liberation, France has been plagued by inflation. There are a number of contributing causes which serve to maintain and increase the inflationary spiral. There has been heavy emphasis on capital expenditures, which are necessary to maximize future production, but which result in a shift of productive resources from the output of consumer goods, thus aggravating the shortages which contribute to inflation. Uncertainty about the future has sharply reduced the volume of private savings, increasing the funds available for current purchases. A large expansion in bank credit has supported inflationary inventory accumulation in some lines, as has also the withholding of commodities from the market in expectation of price rises. Furthermore, inflationary conditions make the domestic market, with constantly rising prices, much more attractive than the export market.

The cost which such an inflationary situation exacts is very great. The burden falls heavily on the urban population, which must buy its food with money of constantly declining value, and lightly on the farmer, who produces what he eats. It falls heavily on the wage-earner, the professional class, and those living on fixed incomes, and lightly on the upper income groups, farmers and large merchants, especially those in a position to make speculative profits as prices rise.

Successive French administrations grappled with the problems of inflation without success until, late in 1947, the Schuman government made the first vigorous and realistic effort to strike at its fiscal causes. Cessation of all inflationary financing by the Government, a forced loan from the higher income groups and the farmers, and similar stringent steps produced a temporary stabilization. But the measures did not prove adequate; inflationary financing of Government expenditures was resumed, bank credit continued to expand, and in July 1948 prices once more began to rise. In September 1948, the new Queuille government framed a fiscal program designed to cope with the situation. The new measures called for 120 billion francs in taxes, mainly through advancing the collection of production taxes, certain feasible economies, and the limitation of private bank credit. Since then, the Government has followed its September program with even more rigorous plans for 1949, including tax reform, credit control, and a pledge to avoid any direct or indirect inflationary financing. The current program seems to provide a basis on which financial stability can be achieved.

The French request for aid for 1948/49 and the amount being made available in that period, as well as the ECA estimate for aid in 1949/50, are summarized in the following table:

	1948/49	1949/50
	(In millions	of dollars)
French request for gross dollar aid	1,114.9	890.0
OEEC recommendation of gross dollar aid	989.0	[a]
ECA estimate of gross dollar aid	980.9	875.0

[a] National submissions for 1949/50 not yet reviewed by OEEC.

The net ERP aid to France in 1948/49 will be $1304.2 million.

In administering the aid program, the ECA has given every encouragement to the adoption of a realistic and anti-inflationary financial policy; in particular, policies for the use of counterpart funds have been directed towards assuring that these funds are used only for sound and non-inflationary investments.

Despite the many obstacles, the recovery of French industrial production since liberation has been impressive. The gross value of French industrial output, taking 1938 as 100, averaged 92 for the year 1947, and 102 for the first half of 1948. In the second half of 1948, chiefly on account of the Communist-inspired strikes, it fell back to an average of about 99, so that the average for the year 1948 will be only about 100.

The rate of increase in output per man-hour in French industry since the war has been substantial, amounting to 20 percent between 1946 and July 1948. The level of output per man-hour nevertheless remains considerably below that of 1938. There are several reasons for this: the first, and probably the most important, is the fact that energy and raw-material stocks are still not always adequate to permit maximum efficiency of plant operations. Even before the coal strike, many French factories were unable to maintain a full weekly work schedule because of power shortage, and this has become even more common since the strike. A second explanation is under-maintenance of plant and equipment during the occupation. This has not yet been made good, and in many instances the physical plant of French industry today is in poorer condition than it was in 1938. Finally, inflation and uncertainty have had an adverse effect on the efforts of both labor and management.

The recovery of French agricultural production since liberation has been irregular and is still short of pre-war. The area under crops is noticeably less than before the war, as is apparently the agricultural labor force. The goal of French agricultural policy is, therefore, to increase the mechanization of French farming and the use of fertilizers, and by other means to raise agricultural output per man and per hectare well above pre-war levels. Though there has been no net investment in agricultural equipment since the end of the war, there has been some increase in the number of tractors. Deliveries of nitrogenous fertilizers to agriculture rose slightly above the pre-war average in the last fiscal year, and are planned to be one-third above that average in the current fiscal year.

Consumption of commodities other than food was, in 1948, virtually as high as in 1938. But average food consumption in 1948 was as much as 18 percent below 1938, if the composition as well as the caloric value of the diet are considered, and, since the farm population consumed food at about pre-war or higher levels, urban food consumption was very much lower. It is also true that the distribution of real income among economic groups is now somewhat different than before the war, primarily as a result of inflation.

On the whole, France has made use of American aid to rebuild and to modernize its productive plant and equipment rather than to increase consumption of consumer goods. Investment in capital goods has been very large relative to the level of savings. Production of capital goods exceeded the 1938 level as early as 1946, and in 1948 was almost a third above pre-war. The principal emphasis has been on electric power, reconstruction of war-damaged housing, repair and reconstruction of all forms of transport, restoration of damaged industrial buildings, and re-equipment of the machine-tool and petroleum industries.

Because under present conditions personal savings tend to be invested in local reconstruction and, where opportunities exist, in hoarding of gold or commodities or in capital flight, by far the greater part of the investment in reconstruction has been government-financed. In 1947, for example, about 80 percent of total net investment was publicly financed. Private business financing has been large, but it has been limited chiefly to self-financing out of undistributed profits and to commercial bank credit.

The very considerable rise in industrial output and the moderate increase in agricultural production have not been accompanied by a proportionate improvement in the French balance-of-payments position. This has been most immediately the result of the inflation, which has restricted exports in a variety of ways.

Since liberation, the excess of imports over exports, long characteristic of the French balance-of-payments position, has increased enormously, and a large current deficit on invisible account has appeared as a new adverse factor in France's balance-of-payments. The current-account deficit for 1947 (in 1948 dollars) was $2,034 million. For 1948, the deficit on current account is estimated at $1,776 million. The improvement in the current-account position is due to the reduction in imports of almost $300 million. Exports were sharply reduced during the first half of 1948, but expanded during the latter half of the year and are now at a level above that of 1947.

5. Greece.

Greece needs peace and financial stability. There must also be reconstruction and economic development. Without foreign aid, these objectives could not be attained. Moreover, the problems of Greece cannot be solved until the upper income groups also make sacrifices and themselves take risks for the future of Greece.

The solutions of these problems cannot be worked out separately and one at a time. Without assurance of reconstruction in Greece, it may be impossible to create sufficient confidence in the future of Greece to mobilize the forces necessary to end the civil war and to maintain the will to restore financial stability. In turn, without peace and financial stability, the resources of Greece are inadequate to pursue an aggressive program of reconstruction.

Financial stability and reconstruction are therefore the twin objectives of a recovery program in Greece. The tragic reality, however, is that today, with civil war raging, the full realization of either objective alone would consume all of the resources Greece has at its disposal. This dilemma can be resolved only if there is frank recognition that reconstruction and development may have to continue in Greece beyond 1952 and that there can be no assurance that Greece will be able to finance the necessary expenditures for this purpose without some kind of external financial assistance. With the resources available for reconstruction in 1948/49 and 1949/50 only a small beginning can be made toward the solution of the problem that lies ahead. Reconstruction must be pushed as fast and as far as possible; but it cannot be pushed in ways that will jeopardize financial stability. Before World War II Greece was one of the poorest countries of Europe, yet its people have been engaged in eight years of war that would have strained the resources of a stronger and richer country. German devastation was extensive; a large proportion of the merchant marine was lost; and the occupation resulted in an enormous inflation.

Liberation did not bring peace. Continued guerrilla warfare has impeded recovery. It has involved maintaining an army of 250,000 men. Furthermore, the Government is forced to care for 650,000 refugees who have been driven from their farms by guerrillas or by fear of guerrillas and who now are huddled in miserable shelters on the outskirts of the main centers of population. The guerrilla war has added its toll to the destruction of villages and has limited the sections of the country in which reconstruction can be undertaken.

The cost of supporting both the army and the refugee population has placed an impossibly heavy burden on the Greek budget. Despite the fact that taxes now amount to one-third of the Greek national income, the Government operates with a large current deficit. This deficit is being covered in part by drawing on the drachma counterpart fund which is also the only significant source of funds to pay the current local costs of reconstruction.

The inflationary pressures to which Greece is subjected retard reconstruction. Private Greek capital will not risk investment in industry, takes refuge in hoarded gold or merchandise, or seeks investment abroad. Capital which fled Greece before the German occupation refuses under present conditions to be repatriated. The urgent desire of Greeks to find a refuge for their savings can only be dealt with through a restoration of confidence in Greece.

It would be a mistake, however, to overlook those things which have been done in Greece both by the efforts of the Greek people and by means of foreign aid. With aid made available since the war, the damage done by the Germans to the transportation system and to basic facilities has been largely repaired. Greek agriculture and Greek industry have made substantial recoveries toward pre-war levels. Important progress has been made in the fields of public health and housing. A large American mission, staffed with technical experts in various fields ranging from finance to public health, is serving in Greece. Americans retained by the Greek Government serve in the Greek Foreign Exchange Control.

With the assistance of the ECA Mission to Greece, the Greek Government took drastic measures to bring about financial stability. It succeeded in stabilizing prices for the first ten months of 1948. The drastic nature of these measures to stop inflation may be judged from the fact that Greek prices had climbed until they were nearly 300 times as high as they had been before the war.

While the Greek Government will not be able to balance the budget so long as extraordinary military and refugee expenditures continue, improvement has been made. In 1946/47, current revenues covered less than 30 percent of current expenditures. Since that time, tax rates have been drastically increased and the Government budget for current expenditures has been cut back at various times. At present, receipts are estimated to cover more than three-quarters of current expenditures and would be fully adequate to meet the ordinary expenses of government if it were not for the civil war.

The wastage of foreign exchange upon luxury and semi-luxury imports has been cut to a minimum. The drachma was devalued, thus contributing strongly to a marked recovery of exports during 1947/48. Since January 1948, credit creation by the Bank of Greece has been restricted and has been non-inflationary.

The fact remains, however, that all of these measures have proved inadequate to bring financial stability to Greece. The failure of this year's olive crop has increased the tendency to hoard oil and fear of increases in the price of this staple destroys confidence in the general level of prices. In the absence of effective control of prices, the tendency of wages to rise has exerted an additional inflationary pressure on costs. The mounting costs of military and refugee operations increase the budget deficit and consume an increasing share of the local drachma counterpart funds.

Prices rose nearly 10 percent between October and November, 1948, and have continued to rise since that time. There has been a rising demand for gold sovereigns. Indeed, by the end of January, 1949, the situation had become so critical as to invalidate all earlier forecasts of the budgetary deficit and of the drachma funds available for reconstruction.

The uncertainties of the general Greek situation call for the exercise of a more than usual degree of administrative flexibility. Equally they call for confidence in Greece and the future of Greece. After eight years of aggression, a hyper-inflation and civil war, United States aid provides the tangible demonstration of such faith required if the individual Greek is to hope for more than bare survival for himself and his family. Recovery in Greece is possible, and by supporting a reconstruction and development program for Greece, the United States gives realistic expression to its confidence and interest in the future of Greece.

Estimates of aid required are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Greek request for gross dollar aid	211.	198.1
OEEC recommendation of gross dollar aid	146.0	[a]
ECA estimate of gross dollar aid	144.8	170.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

The net ERP aid to Greece in 1948/49 will total $211.6 million. Dollar aid is increased in 1949/50 largely because of difficulties which the Greek Government has experienced in securing essential imports in exchange for its exports and to the full amount of its 1948/49 drawing rights. If gross dollar aid is increased to as much as $170 million in 1949/50, it would appear that net drawing rights might be somewhat smaller in 1949/50 than they were in 1948/49.

6. Iceland.

Iceland's economic dilemma is caused by two direct consequences of World War II: a severe monetary inflation which increased real production costs of the country's principal exports, accompanied by a rising standard of living, and a disruption of the pattern of trade by which Iceland's exports were formerly marketed.

Before the war the cost of essential imports was met by the sale of fish and related products, which constituted more than 90 percent of Iceland's exports. The general standard of living was relatively low compared with that in most continental European countries. Iceland had a surplus with the dollar area. The effects of the world depression on Iceland were prolonged because the Civil War in Spain interrupted trade with that country, which was one of Iceland's principal customers.

World War II effected two major changes. First, expenditures by the Allied garrison in Iceland, which at times outnumbered the adult male population, and an unlimited demand for fish at increasingly high prices, chiefly from the United Kingdom, made possible a considerable real improvement in the standard of living. Even with increased imports, however, the supply of goods lagged behind receipts from abroad, resulting both in an increase in foreign-exchange reserves and intense inflation. Foreign-exchange reserves in all currencies reached an all-time high of about $89 million in November 1944. The cost of living advanced more than 300 percent, and increases in wages and purchasing power were even greater. This inflation, largely unchecked by the Government until 1947, lifted production costs to such an extent that the prices of Icelandic exports were in many cases above world levels.

In the second place, the normal pattern of Iceland's trade was wholly disrupted by the war. European markets, excepting only the United Kingdom, were virtually cut off; almost all imports had to be obtained from the United States or Canada; and even since the war European countries have for the most part been unable to provide Iceland with its necessary imports. The need for dollars to pay for imports from the United States therefore continued, but the end of the war and the withdrawal of the Allied garrison abruptly terminated Iceland's extraordinary sources of dollar revenue.

During the post-war years, imports on a large scale were continued through the use of accumulated reserves, which, as a result, fell from their peak of $89 million in 1944 to less than $1 million by the end of 1947. A substantial portion of these imports was used to modernize Iceland's fisheries with the hope of offsetting higher labor costs by more efficient production. Although not fully completed, the program generally benefited the country's economy, but did not succeed in counteracting all the effects of the inflation.

By 1947, it was becoming clear that foreign exchange reserves would soon be exhausted. An Economic Board was created, which licensed all investments, prohibited all non-essential imports, and temporarily arrested the progress of inflation. Before the end of 1948 Iceland had succeeded in balancing its trade with all but the dollar area.

These were the circumstances facing Iceland at the beginning of the European Recovery Program. The aid already extended and the estimate for the coming fiscal year are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Icelandic request for gross dollar aid	11.0	10.0
OEEC recommendation of gross dollar aid	11.0	[a]
ECA recommendation of gross dollar aid	5.2[b]	7.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.
[b] In addition, a loan of $4.5 million is under discussion with Iceland.

The net ERP aid to Iceland for 1948/49 will be $1.7 million.

ECA aid has been used chiefly for the maintenance of dollar imports of vital necessities and for an ambitious program of developing and re-equipping the fisheries, which has increased the productive capacity of Iceland's fisheries an estimated 50 to 75 percent above pre-war.

As a result of the foreign trade controls, imports of consumer goods in 1948 have declined sharply, while the import of capital goods, such as have been required by the investment program, have risen somewhat. Imports from the United States in the first eight months of 1948 were 34 percent below the same period in 1947, and imports from all sources for the same period declined by 12 percent. Import controls have lowered consumption of imported non-essentials.

Exports, on the other hand, have risen considerably; by 66 percent in the first eight months of 1948 as compared with the same period the previous year. Exports of fish were principally to Europe, and, although exports of all kinds to the United States increased 100 percent, the dollar deficit remained large because the dollar area is Iceland's chief source for such necessary imports as cereals, fuels, and many manufactured goods.

7. Ireland.

The two major reasons for Ireland's dependence on ECA aid are both direct results of the recent war. First, Ireland at this time does not convert to dollars any part of the sterling it receives from Britain for its exports and other earnings. Second, Ireland needs a large volume of dollar imports to restore wartime capital depletion, particularly with respect to soil fertility and livestock and poultry numbers. The rehabilitation of Irish agriculture is vital to recovery because Ireland is primarily an agricultural nation and because its exports to Europe of animal products supply badly needed high-protein food.

During the war, Ireland's imports from all sources were seriously curtailed. Some of the most important imports from the standpoint of Ireland's productivity, bread grains, coarse grains, fertilizers, and machinery, were among the most severely cut. Reduction of bread-grain imports forced diversion of Ireland's most fertile land to production of human food, to which it is very poorly adapted, and thereby reduced the home-grown supply of animal feed and pasturage. The loss of coarse grain supplies further reduced available feed. Lack of fertilizer accentuated an already serious problem of soil deficiency. Reduced farm machinery imports hampered farm production still more, while the drop in imports of other machinery was damaging to industrial production. As a result of these influences, Irish animal population fell to a record low and production and exports of all-important animal products declined sharply. Only sustained imports of these commodities at an adequate level will permit the revival and further expansion of production and exports, but they cannot now be obtained without considerable dollar expenditure.

Ireland's pattern of production and trade has always involved a dollar deficit. Before the war, this deficit was covered by conversion of sterling to dollars at the sterling area dollar-pool. As a result of the war, the dollar resources of the sterling area have been very much reduced and, in consequence, Ireland cannot meet its dollar deficit by drawing on the sterling area dollar-pool without increasing the United Kingdom's dollar needs correspondingly. In order to allow Ireland's dollar needs to be separately determined, Ireland has agreed not to draw on the sterling area dollar-pool during the ERP period. This means, on the one hand, that no ECA dollars supplied to the United Kingdom will be used to meet Ireland's dollar needs and, on the other, that Ireland must look to ECA for all of its dollar expenditures not covered by the limited Irish dollar earnings.

Ireland's balance of current international payments deteriorated rapidly in the early post-war years, but during the past year improved markedly both over-all and on dollar account. When essential imports became available after the war, efforts to rebuild inventories, to restore consumption to the pre-war level, to satisfy deferred demand, and to increase imports of feed and fertilizers caused import volume in 1947 and early 1948 to rise considerably above pre-war. Because many imports could not yet be obtained from Ireland's European sources, an unusually large deficit with the dollar area was incurred. The dollar deficit was met in the normal manner by conversion of sterling through the sterling area dollar-pool.

As a result of the dwindling dollar reserves of the sterling area, it became necessary in late 1947 for Ireland sharply to reduce purchases from the dollar area. Over-all import volume remained high through mid-1948, but then fell sharply and was running at about 100 to 110 percent of 1938 from July through October 1948.

The totals of the first two annual ERP programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Ireland's request for gross dollar aid	111.0	75.4
OEEC recommendation of gross dollar aid	79.0	[a]
ECA estimate of gross dollar aid	78.3	64.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

To reduce the dollar deficit, the Irish Government has encouraged the shifting of sources of supply to non-dollar areas, whenever possible.

A certain degree of success is being achieved along these lines. Still, a rapid restoration of the Irish economy is dependent upon total imports in 1949/50 continuing at about the same level as 1948/49. A considerable volume of essential imports—wheat, coarse grains, refined oil products and certain machinery not obtainable elsewhere—will of necessity continue to come from the Western Hemisphere, and will require dollar financing.

Ireland's exports to the United States and Canada have always been small, and there seems to be little hope of important increases in the immediate future. Although considerable attention is being devoted to possible methods of expanding these exports, even a large proportional increase would amount to little in absolute terms. The country's main dollar earnings arise from emigrant remittances and tourist expenditures. No large increase can be expected from the former, although the latter may rise eventually as a result of a government-sponsored promotion campaign.

ECA aid is essential to the carrying out of this Irish program in two ways. First, ECA dollars are essential to buy the imports required to achieve the desired production level. Second, the local currency received by the Government from imports in exchange for the dollars will be an important source of funds for the Government's development program. With the aid of substantial dollar imports, Ireland's internal economy has made good progress since the war; both agricultural and industrial output are rising and the monetary and financial situation is sound. Real per capita national income, though still relatively low, has probably recovered since the war to slightly higher than its 1938 level of about $250.

Steady progress has been made toward restoring agricultural production and exports, although considerable investment in livestock, fertilizer, and farm equipment and buildings will be required over the next few years to achieve the long-term goals. Actual increases above pre-war in output and exports of poultry and eggs already have been realized. Pre-war levels are still to be reached in the production and exports of larger animals with longer production cycles, particularly beef cattle. Much remains to be done also in rebuilding soil fertility even to the pre-war level.

Industrial production, though relatively undeveloped, has resumed its pre-war expansion with the assistance of various government programs.

8. Italy.

Italy emerged from the war in an extremely critical condition both economically and politically. In the intervening years and with the assistance of the ERP, Italy has achieved remarkable stability in both fields. Despite a large increase in its exports and a consequent closing of the gap in its balance of payments, Italy still finds itself faced with the basic problem of Italian economic life: the problem of too many people and of too few jobs.

The Italian economy is affected by the poverty of its natural resources and by a rapid rate of population growth. Industrialization began later than that of other major Western European countries and has progressed slowly. Despite very considerable industrial development in the north, the national increase in jobs in the recent past has been far less than the increase in persons seeking employment.

Mass emigration from Italy, at times exceeding the growth of population, provided a safety valve which eased population pressure on the Italian economy. Between the wars, however, emigration declined primarily as a result of restrictions on immigration imposed by many countries, and chronic urban unemployment appeared on a large scale, in spite of record industrial activity and nearly full utilization of capacity. War damage and some slowing down of industrial expansion during World War II have aggravated the unemployment problem; in September 1948 urban unemployment was 1.69 million, or about twice the level of the immediate pre-war years.

The first, short-run problem of Italian economic recovery is that of achieving, with ERP aid, full utilization of the existing industrial plant which can be economically employed. Beyond this lies a more difficult objective: to expand industrial and other non-agricultural employment rapidly enough to absorb at least the increase in the number of persons seeking employment and, at the same time, to achieve self-support at a reasonable standard of living.

During 1946 and the first nine months of 1947, industrial output in Italy rose rapidly, reaching about 90 percent of 1938 in October 1947. Production was limited by the supply of coal and raw materials, but was accelerated by strong inflationary pressure, a rapid rise in prices, and consequent building-up of large inventories. Then, in large part as a result of effective anti-inflation measures taken by the Italian Government, the inflation was broken. There was a sharp drop in prices and in early 1948 industrial production fell off to a little over 70 percent of 1938. Since the spring of 1948, industrial activity has been slowly rising again, although it is still considerably lower than pre-war production and well below the present capacity of Italian industry, particularly in the case of capital goods and construction. More recently, there are clear signs of an acceleration of industrial recovery.

The Italian request for aid in 1948/49 and the OEEC and ECA recommendations with respect to it, as well as the relevant figures for the coming fiscal year, are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Italian request for gross dollar aid	799.5	610.1
OEEC recommendation of gross dollar aid	601.0	[a]
ECA estimate of gross dollar aid	555.5	555.0

[a] National submissions for 1949/50 not yet reviewed by OEEC.

The net ERP aid for Italy in 1948/49 will be $535.2 million.

Full utilization of Italy's industrial plant can be achieved in the near future but this will require aggressive action on the part of the Italian Government, in particular the launching of a coordinated public-investment program. Under present conditions in Italy and in the world, business confidence in Italy is weak and private investment cannot be counted on to assure full utilization of those existing industrial facilities which can be economically operated or to provide the minimum of low-cost housing. The Italian Government recognizes the need for effective action in the field of investment and in other fields of economic policy, but this will depend on a considerable improvement of existing administrative machinery. Means are needed to develop integrated economic programs, and particularly a national investment program, and to coordinate the activities of the various economic ministries on such programs.

Despite production difficulties, Italy has made remarkable progress toward closing the gap in its balance of payments. Taking 1938 at 100, the volume of exports has risen from 39 in 1946 to 57 in 1947 and in the first ten months of 1948, to 80 or 85. If pre-war exports to the former Italian colonies are excluded from the comparison, the volume of Italian exports is already above the 1938 level. This remarkable rate of improvement has been due principally to: (1) exchange rate and exchange control policies adopted by the Italian Government which provided a strong incentive to export and, in general, kept Italian export prices competitive in world markets; (2) the deflation which in 1948 helped reduce Italian costs and export prices; and (3) the exploitation by enterprising Italian exporters of a number of favorable, although frequently temporary, market opportunities which developed during 1947 and 1948. Principally as a result of this rapid improvement in exports, Italy's need for dollar assistance has fallen considerably since 1947.

There is, however, another side to this picture. The balance-of-payments deficit in 1948 was reduced considerably as compared with 1947, in part because of the deflation in Italy, the effect of which was to reduce industrial output and national income and, therefore, to restrict demand for imports of industrial raw materials, equipment, and some essential foodstuffs. In fact, total imports in 1948 have not been substantially larger in volume than in 1947, when food imports and a number of industrial imports were seriously limited by commodity availabilities. This is because the Italian economy did not achieve in 1948 the higher rates of industrial output and investment which would have been possible in the circumstances and which are the essential means for maintaining political stability and for ultimately achieving self-support.

9. Norway

Norway's fundamental economic problem is still that of repairing the damage of the war. This requires an investment program so large as to create an inflationary threat. This latent inflation has been contained since the end of the war only by strong governmental controls, which raise problems of their own.

Another result of the war was the loss of Germany as a source of supply and the consequent necessity for larger Norwegian purchases in the United States. This has contributed to the abnormally large trade deficit with the Western Hemisphere, aggravated in turn by the fact that freight rates have not risen as much as the prices of imports, making it more difficult for Norway to pay for imports by carrying freight.

Norway is among the countries that suffered the greatest loss of property in the war. Half the merchant marine was lost. The Germans laid waste northern Norway, destroying an iron mine and concentration plant that had played an important part in Norway's pre-war foreign trade. Stocks of goods in cons[illegible]' hands and for business use were reduced by half. There was [illegible]tial damage to buildings and equipment. It is estimated that, [illegible]her, Norway lost nearly a fifth of its wealth, at present prices about $2 billion. For a nation of just over 3 million people this is a staggering amount.

Reconstruction, which has conditioned every economic decision and policy in Norway for the last four years, has been carried out so far almost entirely with Norwegian resources and credit, but it can not be completed without ECA aid.

By the end of 1948, somewhat more than half the job of reconstruction had been done. Hydroelectric works are now above pre-war capacity. The fishing fleet and whaling factories have been brought back to pre-war levels. The merchant fleet, which offers the quickest chance to earn dollars with new investment, is approaching 90 percent of pre-war tonnage. On the other hand, stocks of goods are still far below normal, less than half the houses in the north have been rebuilt, and iron mining is still operating at a very low level.

Norway has used considerable resources to finance imports essential for its reconstruction program. As a result of insurance payments for ships lost during the war and of earnings for freight carried, Norway had large credits both in dollars and sterling at the end of the war. Together these reserves would have been large enough to finance about a quarter of the reconstruction job, had it been possible to use the entire sterling reserve. Norway also realized some millions of dollars by requisitioning private Norwegian dollar assets and by using its own gold reserves.

Beyond this Norway had to borrow. The Norwegian Government has pledged its credit to purchase ships and to borrow nearly $100 million from various agencies of the United States Government (other than the ECA) and to borrow another $40 million from Sweden and Canada.

In this manner, Norway was able to pay for imports of goods and services that exceeded income from exports and shipping in each of the last three years: by $160 million in 1946; $272 million in 1947; $200 million in 1948.

By the fall of 1947, it had become evident that Norway could not continue to pay for imports at the current rate. The ship program was continued in 1948, but the rest of Norwegian imports were cut back from a level in 1947 slightly above pre-war to only 86 percent of pre-war in the first half of 1948. The Western Hemisphere dollar deficit was cut from $204 million in 1947 to a rate of $132 million in the third quarter of 1948. Further drastic cuts in food, raw material and equipment imports would have been necessary without ECA aid.

ECA aid extended to Norway in 1948/49 and the estimate of aid for 1949/50 are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Norwegian request for gross dollar aid	104.0	131.8
OEEC recommendation of gross dollar aid	84.0	[a]
ECA estimate of gross dollar aid	83.3	105.0

[a] National submissions for 1949/50 not yet reviewed by OEEC.

Estimated net ERP aid for Norway in 1948/49 will be $115.1 million. In connection with the increase in aid in 1949/50, it should be recalled that in 1948/49 Norway still had the balance of a loan of $30 million from the Export-Import Bank which will not be available in 1949/50.

On the domestic front, the reconstruction program has necessitated a constant effort to increase savings and to suppress inflation. While the surplus of imports was large enough to provide for about three-fifths of the net investment program from 1946 to 1948, the program was so large that it proved difficult to finance even the remaining two-fifths from current Norwegian production and savings.

The Norwegian Government tackled this problem by encouraging increased production, by restricting consumption, by establishing large savings out of funds collected by taxes and by using whatever devices are necessary to suppress inflation.

There has been a significant recovery in Norwegian production. Agricultural production, which was at 75 percent of pre-war levels in 1945, has now recovered to 90 percent after a set-back due to the weather in 1947. Industrial production for home consumption and investment has nearly doubled since 1945 and is now 40 percent above pre-war levels.

Consumption has been severely restricted by the Government. Imports are screened to make sure that only the most essential goods are brought into the country. Almost all food is rationed except fish, potatoes and vegetables. People in the cities are getting a much less satisfactory diet than before the war. Clothing is so tightly rationed that a man's quota for the year is used up if he buys a suit and a shirt. There is a general housing shortage and conditions are very serious in the devastated north. Fuel supplies are so limited as to cause severe discomfort during the winter.

Restrictions on consumption have succeeded in supporting the reconstruction program in some ways. They have prevented the unplanned diversion of foreign exchange to satisfy consumers' needs. They have been successful in insuring that local demands for reconstruction take priority over consumer demand, as for example, by insuring that hydroelectric works are built before houses. But they have not been at all successful in insuring that people who could not buy what they wanted would then save their money and invest it in the reconstruction of Norway. In 1946, there was only a small amount of spending of past savings by individuals, while there were large savings by business enterprises and small savings by the Government. In 1948 it appears that the use of past savings by individuals was so large that it almost equalled business savings. In effect, net savings in that year depended on public rather than private action.

The Norwegian Government is fully aware of the dangers inherent in this situation and has used the controls necessary to prevent inflation. Prices are little higher than they were when the war ended. Prices and wages are both rigidly controlled. Subsidies have been extensively used to prevent rising costs from resulting in an upward revision of wage scales. Rationing has been used to insure an equitable division of available supplies of essential consumers' goods.

These contributions by the Government to the reconstruction program have not been without their cost. The Government surplus has only been made possible by heavy taxes, which may limit incentives to produce and which contribute to the decline in individual savings. As yet Norway has not been able to develop an amount of voluntary saving large enough to maintain the essential reconstruction program and at the same time to begin a gradual relaxation of detailed economic controls.

10. Portugal.

Before the war Portugal was one of the lowest-income countries in Europe, mainly because of the under developed state of its economy. The Portuguese economy is devoted primarily to agriculture, which engages nearly 60 percent of the population. The country is virtually without heavy industry, and has for many years imported most of its machinery and fuel. Efforts by the Government in the last twenty years to accelerate industrialization have emphasized the development of hydroelectric resources, colonial development, and the modernization of agriculture and transport.

In 1947, Portuguese industrial activity was at or above pre-war levels, with output of coal, cotton textiles and cork higher than prewar. Agricultural production has suffered from recurrent drought in recent years, and in 1948 the wine, wheat, olive oil, and corn crops were estimated to be well below the 1936-1945 average. Because of an estimated lower production of wine, canned fish, and cork in 1948, the outlook for Portugal's key exports in the near future is not good.

The balance of payments of Portugal and its colonies, which normally showed a surplus of about $5 million in pre-war years, has been adverse since 1947, chiefly because of a rise in imports caused by pent-up consumer demand as a result of wartime shortages, an increase in agricultural imports on account of poor crops, and greater imports of capital equipment to implement the industrialization program. As a result, Portuguese gold holdings, which amounted to $376 million in July 1947, have been subjected to a heavy drain and are estimated at only $160 to $170 million as of June 30, 1949. Of this amount, about $140 million is needed as legal backing for the country's currency, and the remainder will be sufficient to cover only a part of the estimated Portuguese balance of payments deficit for 1949/50. Foreign trade has been controlled by the Government since late in 1947 in order to reduce this drain on exchange reserves.

Because of the deterioration in its foreign-exchange position, Portugal had intended to apply for ERP aid during the first part of 1948. However, at that time the first ERP appropriation had already been allocated and Portugal was unable to obtain aid.

The following table indicates the size of ERP aid requested by Portugal in 1949/50 and the tentative aid figure estimated by ECA:

	1949/50 (In millions of dollars)
Portuguese request	100.6
ECA estimate of gross dollar aid	10.0

While the United States is sympathetic to the desire of the Portuguese Government to accelerate the development of the economy in Portugal and its colonies, only a part of this development can properly be considered to fall within the objectives of the European Recovery Program. The estimated aid will serve to increase exports from Portugal and its colonies of items needed by the participating countries, such as foodstuffs and high-grade iron ore, and of strategic materials, such as chromium and manganese, and to reduce Portuguese imports of certain consumer goods and fuels, which are now in deficit for the participating area as a whole. Aid to Portugal would also benefit the United States by making possible an increased supply of strategic materials from Portugal and from the colonies.

11. Sweden.

As a result of the war, Sweden was compelled to turn to dollar sources for supplies formerly obtained from Europe, especially Germany. The extension of bilateral agreements to balance trade has also deprived Sweden of the possibility of using surpluses in trade with some countries to meet deficits with others. These dislocations of trade, arising from the war, would inevitably have resulted in dollar deficits. In addition, Sweden extended early post-war credits to Norway, Denmark, The Netherlands, and the United Kingdom. A post-war boom in consumption and domestic investment in Sweden, which resulted in too rapid a drain in 1947 and 1948 on Swedish reserves accumulated during the war, could have been avoided with foresight. The last factor contributing to Sweden's current problems is a drop in its sales of wood-pulp in the American market.

The Swedish Government has had time, with ECA aid, to formulate a program to cure the imbalance in the Swedish economy without going through a sharp recession, and has been able to continue to export products to participating countries in amounts larger than its purchases of goods and services from them. Swedish iron ore, timber, pulp and paper, ships, and engineering products are particularly essential to other participating countries. A stable and productive Swedish economy will contribute to the success of the ERP, whereas instability in this area could only be harmful.

In 1946, the Swedish Government felt that it was necessary to protect the Swedish economy against prospective fluctuations in prices and business in the United States and increased the value of the krona. This policy encouraged imports and contributed to a boom in Sweden in 1947. It also led to increasing difficulties in marketing Swedish products abroad, especially in the United States.

The policies of that period were largely instrumental in bringing about a large deficit in the balance of payments. Before the war, Sweden had been a small exporter of capital. In 1946, it had a small and manageable over-all deficit of about $40 million. In 1947, however, the over-all deficit jumped to the equivalent of $427 million. Despite the fact that Sweden had large gold and dollar reserves at the end of the war, this rate of spending could not be long continued. There was a sharp reduction of imports and an increase in exports in 1948; the over-all deficit for the balance of payments for that year is estimated at $136 million.

The drain on Swedish reserves, however, was not stopped in time to prevent Sweden from facing a crisis by the middle of 1948. Gold reserves declined from $482 million at the end of 1945 to $81 million by the middle of 1948. Dollar balances over the same period declined from $210 million to a low point of $38 million, from which there has subsequently been some recovery. While Sweden still had some sterling balances that permitted the financing of a small deficit with the sterling area, resources to finance a deficit in the dollar balance of payments had nearly come to an end.

The Swedish Government then took measures to meet the crisis. Imports payable in dollars were sharply cut back, and imports of consumer goods in particular were greatly reduced. Although continuing an easy-money policy in some respects, the Government has by various administrative devices restricted the expansion of loans to the private sector of the economy. The domestic investment program was cut back partly by strict controls over building permits and partly by a reduction in the Swedish Government's part of the investment program.

In the fall of 1948, a comprehensive program was formulated by the Social Democratic Government to bring the Swedish economy into balance. The possibility of reestablishing an over-all equilibrium in the balance of payments will depend upon the vigor with which this program is implemented by the Swedish Government.

In two respects, the drive to increase exports may have to be more rigorous than has so far been planned. There is a long-run problem in Sweden as to the volume of timber exports that can be maintained; current programs apparently visualize smaller cuts of timber than before the war. In the present emergency, however, Sweden cannot afford to neglect any opportunity to raise exports and may have to abandon temporarily its plans to keep the production of timber at relatively low levels.

One of the primary obstacles to increased sales of Swedish products, particularly in the dollar area, is their relatively high price. Efforts to recover a share of the American pulp market are required, as well as the seeking of opportunities to push the exports of other products. Swedish exporters have experienced growing difficulties in marketing their products, especially in the United States, and it is therefore necessary that Swedish prices be made competitive in the dollar area, which the appreciation of the krona in 1946 has made more difficult.

Sweden's loss of a share of the American pulp market cost well over $20 million in dollar exchange in the last half of 1948. The drop in pulp sales in the American market is, in part, a reflection of increased production in the United States and Canada; but it is also the result of high Swedish prices. Though there was some reduction in the price of Swedish pulp last fall after the removal of an export tax by the Swedish Government, it has not attracted buyers because Swedish prices are still well above current American market levels.

Complex as many of the individual problems are that Sweden faces, the over-all problem can be stated in simple terms: the Swedish economy as a whole has been living beyond its resources, and, although it is tightening its belt, it will encounter a continuing dollar deficit. ECA aid has afforded some time in which to make the minimum adjustments that are necessary to achieve over-all balance, and to convert soft currency surpluses into dollars with which to pay for imports from the Western Hemisphere. The Swedish Government and the Swedish people are now faced with the need for vigorous and effective action, including the acceptance of a somewhat more austere standard of living during the next few years.

The long-run problem that Sweden faces of establishing a balance with the dollar area involves somewhat more fundamental changes in the Swedish economy. In particular, since Sweden cannot depend as heavily in the future as in the past upon exports of timber and wood-pulp, greater reliance will have to be placed on more highly processed wood products and increased output of iron and steel, iron ore and products of the engineering and electro-chemical industries. Time is needed for this kind of development, and it is this time that is gained by conditional aid to convert soft-currencies into dollars. The long term program submitted by the Swedish Government anticipates increases of this sort based upon expanded hydroelectric power capacity.

The totals of the first two annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Swedish request for gross dollar aid	109.0	70.7
OEEC recommendation of gross dollar aid	47.0	[a]
ECA estimate of gross dollar aid	46.6	54.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

The net ERP aid to Sweden in 1948/49 will be $21.6 million.

12. The Netherlands.

World War II destroyed the economic stability which The Netherlands had succeeded in maintaining for thirty years. In the pre-war period, The Netherlands had paid for a surplus of imports over exports by means of shipping revenues, income from capital investments in the United States and Europe, and foreign-exchange receipts obtained from Indonesia.

At the end of the war, The Netherlands had suffered vast losses from the German occupation, amounting to nearly one-third of its national wealth. Its shipping fleet had been reduced by half, its investments in Germany wiped out, and its principal dependency, Indonesia, had suffered from the severe consequences of Japanese occupation. The Netherlands was forced to liquidate substantial dollar investments in the United States to pay for its rehabilitation needs and, in addition, to borrow extensively from national and international sources. Its trade deficit vastly increased in the post-war period because of its reconstruction and consumption requirements. The economic dislocation in Germany—once The Netherlands' principal supplier—also forced it to purchase even more imports from the United States. Finally The Netherlands was no longer able to obtain the foreign exchange from Indonesia which had previously enabled The Netherlands to obtain raw materials and food in the Western Hemisphere.

ECA aid has helped The Netherlands in making substantial recovery progress. Improvement in industrial production over pre-war, farm and industrial rehabilitation, and the rebuilding of its merchant fleet and its railroad transportation system are among the accomplishments of The Netherlands in this effort.

The aid allotted to The Netherlands by the ECA in 1948/49 and the request and estimated requirements for 1949/50 are summarized in the following table, which includes Indonesia:

	1948/49	1949/50
	(In millions of dollars)	
Netherlands request for gross dollar aid	657.0	507.0
OEEC recommendation of gross dollar aid	496.0	[a]
ECA estimate of gross dollar aid	469.6	355.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

Estimated net ERP aid for The Netherlands and Indonesia in 1948/49 will be $541.3 millions.

In 1948, The Netherlands economy has had a rapidly increasing rate of industrial and agricultural production. Agricultural production reflected the rise over the unfavorable 1947 level, a level which was to a considerable degree the result of very bad weather, as well as an improvement resulting from reclamation of land flooded by the Germans (approximately 10 percent of total land available) and the further mechanization of farms where this was possible. Total meat production is expected to increase somewhat, as are yields of dairy products and all crops. Potato production in 1948 was 85 percent above pre-war and vegetable production about the same as pre-war. Pig and poultry numbers have also shown increases but are still lower than pre-war.

The Netherlands has suffered to a great extent as a result of the war's disruption of the German economy and the loss of much of the Rhine transit traffic. The Dutch have been forced to develop new sources of industrial goods once supplied by Germany and must search for new markets for agricultural exports once sold to Germany.

Against this economic background, and in the face of a rapid and continuing population growth, the Dutch have developed plans for a large investment program. While many of the lost pre-war sources of revenue will be restored in part, the Dutch must develop and expand new sources of revenue. Gross investment is now running at one-quarter of the gross national product plus the import surplus and, on a net basis, the proportion approximates 15 percent. The investment effort is being channeled into the more directly productive categories and, in consequence, the serious housing problem cannot be alleviated in the near future.

On their own, the Dutch would be in a position to do little more than protect their remaining industrial and agricultural equipment from further depreciation. They cannot create enough new capital to solve the post-war problems. With ECA assistance, the Dutch can provide against depreciation, make good the most critical war damage, create the fixed plant necessary for a rapidly growing population, and expand industries as a foundation for viability at the end of the ERP period.

The rate of industrial activity, exclusive of the building industry, has moved ahead rapidly to a level considerably higher than was normal before the war. But the Dutch still have a long way to go and it is to be hoped that industrial output will continue to move upward. For as far ahead as can be seen, this increase in The Netherlands gross national product must be reserved primarily for long range objectives and cannot be made the basis for rapidly increasing consumption standards.

Dutch consumption standards were among the highest in Europe before the war but are now low relative to the other countries of Western Europe. During the coming year, the Dutch plan a relaxation of consumption restrictions, particularly with respect to meat. Textile consumption is about two-thirds of pre-war. Housing space is closely rationed, with a considerable amount of doubling-up and tripling-up among the Dutch families. Not only do these comparisons reflect a serious absolute drop in Dutch standards, but they place the Dutch in a much poorer relative position than pre-war.

13. The United Kingdom.

Britain requires economic assistance from the United States not only because of the direct damage of two world wars but also because of long range changes in the position of the United Kingdom within the world economy. The basic recovery problem of the United Kingdom is to attain a balance in its overseas accounts at an acceptable domestic standard of living. This problem arises because of the loss of net income from invisibles and overseas investments liquidated as a result of the war, and increased production and exports are essential to its resolution. As there is already full employment in Britain, it will be necessary to rationalize and modernize production so as to increase output per man-hour if total production is to increase. Another major aspect of Britain's long-term recovery is the problem of balancing its dollar accounts. Much progress has been made toward attainment of an over-all balance on current account, but to an important degree earnings in trade with other areas cannot be used to meet deficits in trade with the dollar area. The present outlook, therefore, requires Britain to stimulate its exports of goods and services to the Western Hemisphere so as to reduce its dependence on convertibility at the end of the recovery period.

Important structural changes in the British economy are, therefore, necessary if it is to be successfully adapted to the conditions of the post-war world. British policy is designed to assist these changes by assuring that the country's resources are used in the first instance to increase exports and improve and expand productive capacity and only secondly to increase consumption. The British people have shown their understanding of the recovery problem by accepting the "austerity" which is one of the principal supports of the recovery program.

Britain was for many years the chief center of world trade; the pound sterling was the monetary unit in which a large part of world commerce was conducted, and many important nations found it to their common advantage to tie their currency to the British pound and to maintain their currency reserves in London.

Gradually, however, the United Kingdom, the first nation to be industrialized, felt the effects of competition as parts of its industrial plant grew obsolete and its exporters lost markets to newer producers. The need to devote production to the support of World War I, and later the depression of the thirties, aggravated this trend, and Britain began to experience a small but persistent deficit in its balance of payments.

The United Kingdom was unable to sustain the further drain imposed by World War II without liquidating a large portion of its overseas investments; the merchant marine suffered heavy damage from enemy action; capital plant was seriously impaired by bombing raids and continued under-maintenance and lack of repair. When the war was over, the United Kingdom faced a large deficit in its balance of payments despite the austere standard of living to which Britain had been reduced.

Development of a surplus on current account depends upon an increase in both production and productivity within the United Kingdom and upon the maintenance of economy in imports. In general, this necessity is well understood by the Government and people and notable progress has been made since the war in working toward these objectives. The United Kingdom hopes to move from a current deficit of $2.4 billion on dollar account and a total drain of gold and dollars of $4.1 billion in 1947 to a manageably small deficit in its current dollar account and an estimated surplus of $400 million in all currencies by 1952/53. Attainment of this goal will require a volume of exports 50 percent above 1938 and close to 40 percent above 1947, while imports will still remain below pre-war levels. The output of manufactures in 1952/53 must be 40 percent greater than pre-war and 25 percent greater than 1947 in order to sustain the projected level of exports and an acceptable domestic standard of living. World market conditions must be such as to permit the projected volume of exports to be sold.

These sizeable increases in manufacturing and exports require that large capital investments be made during the next three years not only in new production facilities but also in the modernization and improvement of existing plant and equipment, some of which was already obsolete before the war. Approximately 20 percent of the gross national product will be devoted to capital formation during each year of the program, principally in the basic fields of fuel and power, transportation, manufacturing of capital goods and industrial materials, and agriculture. The resources remaining for the personal consumption of the British people are therefore limited and will remain so until the recovery goals have been attained.

Since the critical year 1947, progress toward recovery has been steady. Production targets, which in 1948/49 are 125 to 130 percent of pre-war, have already been met in most important industries. An outstanding success is the steel industry, which exceeded its 1948 target by approximately 400,000 metric tons. The only exceptions have been coal-mining and the textile industry which, despite increased output over 1947, did not quite attain projected levels. As a result of this manufacturing effort, and the limited domestic consumption, export volume increased in each quarter of 1948.

Although shortages of certain materials are still important factors limiting production, the major task in obtaining greater output is increased productivity. Since full employment has been reached, this means that future production increases must in large measure come from additional output per man rather than from additional workers. Shifts in employment could assist in this effort, since certain essential industries, notably coal-mining and textiles, have been unable to attract a sufficient number of additional workers.

For the past year, the Government has attempted by various means to redirect labor to more essential employment but with less than desired success. In a democracy with full employment, material rewards remain the most effective incentives for channeling both labor and capital into desired directions; "austerity" limits the adequacy of such incentives. Despite the Government's legal power to direct labor away from non-essential industries, the distribution, service, and amusement trades continue to absorb a larger share of the labor supply than originally planned because the work is relatively pleasanter and the rewards relatively greater than in the more arduous but more essential industries.

It is apparent, therefore, that full employment within the British economy and the need to meet competition in export markets emphasize the urgency of the need for increased productivity. Increasing output per man-hour is essential to British recovery. Increases in productivity, however, are accomplished not only by capital investment; they are equally dependent on the effort put forth by labor and on the adoption by management of new and more efficient production methods. In the past six months both labor and management have shown a growing awareness of the need for better understanding and cooperation in eliminating antiquated and inefficient working techniques, labor practices, and methods of wage computation.

The physical limitations and difficulties faced by the United Kingdom in increasing productivity and production are accompanied by financial and monetary problems. Full employment creates relatively larger money incomes for most of the population but the necessity to further both the export drive and capital investment limits the consumer goods and services which these incomes can purchase. Inflationary pressures are therefore generated which fluctuate in degree as a result of various Government policies. On the one hand, governmental expenditures are considerably larger than pre-war, not only because of new burdens arising from the war but also because of some increased social service payments in the fields of health, education, and child and old-age care. On the other hand, subsidies are paid by the Government to the producers and distributors of many essential consumer goods in an effort to keep down the cost of living and minimize demands for higher wages. Direct and indirect taxes are considerably higher than pre-war; dividend payments are limited by voluntary agreement; the governmental budget anticipates a surplus for the current fiscal year. The Government also maintains price controls and restrictions on non-essential investments, rations certain consumer goods and allocates scarce materials to essential industries.

In addition, the Government has used, with ECA approval, the sterling counterpart of ECA grant aid for retirement of short-term national debt. This has amounted to £82 million, which is the sterling counterpart of $331 million of assistance extended in the form of direct grants.

The net effect of these policies has been to control inflationary tendencies so that prices and the cost of living have risen only moderately during the past year. It is a tribute to the sense of national responsibility and the morale of the British people that these Government controls are effective and inflationary pressures, though present in the economy, are prevented from having their full impact.

To contain and diminish inflationary forces, the Government has exercised an increasingly close supervision over the capital-investment sector of the economy by allocating available raw materials and equipment to essential capital projects and by attempting to prevent unnecessary investments. However, the prevalence of low interest rates and the easy credit situation may make it difficult to curtail non-essential investment to the extent desired.

During the current year, 1948/49, ECA aid has been an essential supplement to the efforts of the British people described above. Gross ECA aid of $1,239 million for 1948/49 should permit a level of imports approximately 85 percent of pre-war to be maintained. The heavy drain on British gold and dollar reserves which occurred before the start of the ERP has been checked, but ECA aid will probably not be sufficient to halt it completely. However, loss of hard-currency resources will be relatively small this year.

Reflecting increased domestic activity and rising exports, the rate of the over-all deficit on current account has been substantially reduced and the dollar position much improved.

The totals of the first two annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
United Kingdom request for gross dollar aid	1,271	940
OEEC recommendation of gross dollar aid	1,263	[a]
ECA estimate of gross dollar aid	1,239	940

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

Estimated net ERP aid to the United Kingdom in 1948/49 is $949 million.

ECA aid has been an essential supplement to the United Kingdom's own effort. Although progress in each field of economic activity depends primarily upon British efforts, United States aid is required to provide essential dollar purchases, without which the progress of the British economy would be seriously impeded.

The British first and second annual programs are, in general, logical steps toward independence of extraordinary external aid. The substantial degree of progress already achieved by the United Kingdom, its generally sound fiscal policy, and the acceptance of austerity in its living standards offer assurance that aid extended to the United Kingdom will be effectively used.

14. Trieste.

The Free Territory of Trieste was established by the Italian Peace Treaty. It is now administered in two zones, one under the joint administration of the United States and the United Kingdom, the other under Yugoslavia; it is the United States-United Kingdom Zone which is under discussion here. The zone suffers from several basic economic problems. First, it received heavy war damage and, particularly, lost about three-fourths of its shipping. Second, the general decrease of East-West trade has meant a great reduction in the city's pre-war commercial activity. Before the war, Trieste served as a major outlet for the products and a major route of the import trade of central European countries.

The recovery plan, therefore, aims to repair wartime destruction, with particular emphasis on port facilities and on shipping, and hopes, in the face of the severe reduction in East-West trade, to increase services for Western Europe, particularly Italy. It aims also at the fuller utilization of the zone's industries.

Since the coming into force of the Italian Peace Treaty, the Yugoslavs have repeatedly threatened the integrity of the Territory and have virtually incorporated their Zone into Yugoslavia. In this situation the Treaty settlement has become unworkable and the United States, Britain and France have therefore recommended revision of the Treaty to provide for the return of the Free Territory to Italy. Pending the realization of this proposal the United States and the United Kingdom Governments are continuing to administer their Zone in accordance with the relevant provisions of the Peace Treaty.

The totals of the first two annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Trieste request for gross dollar aid	22.0	12.8
OEEC recommendation of gross dollar aid	18.0	[a]
ECA estimate of gross dollar aid	17.8	12.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

15. Turkey.

Although Turkey escaped the physical destruction of World War II and the severe economic dislocation experienced by many of the countries of Europe, many readjustments were necessary at the end of the war. Deferred wartime maintenance and obsolescence of equipment required and still require attention; pipelines of consumer goods had to be replenished; inflationary forces generated by heavy imports and by a limited export market for Turkish products had to be overcome; and the international exchange value of the Turkish lira had to be adjusted. These adjustments, together with the general economic development of the country, had to be carried out while Turkey was endeavoring to retain its national freedom. This effort to stand firm against threatened aggression has not been without heavy financial obligations causing serious impact on the country's relatively limited economic resources.

Close to one-half of the Turkish national budget is devoted to defense expenditures; this in effect prevents accumulation of any substantial savings for capital purposes.

Historically, Turkey has depended on agriculture as its principal means of livelihood, but during the last two decades it has been making efforts to achieve a new balance in its economy through industrial development. Imports of capital goods for use in the industrialization process were largely interrupted during World War II; however, Turkey found ready markets for its exports and accordingly accumulated relatively large holdings of gold and foreign exchange.

In resuming imports of capital equipment, Turkey began to draw on its wartime earnings of gold. The bulk of capital equipment had to be purchased in the United States since Germany could offer no supplies and Western Europe was unable to meet its own needs. For a time, during 1946 and the first half of 1947, exports remained at high levels so that the fall in gold reserves tended to be counterbalanced by increases in sterling holdings. But when the United Kingdom discontinued convertibility of sterling in August 1947, the Turkish Government considered it undesirable to retain large sterling holdings and began to restrict exports to sterling countries. At about the same time severe restrictions were imposed on dollar expenditures. The restrictions on sterling exports, combined with difficulties in expanding sales to hard-currency areas, accentuated an unfavorable balance that began to appear in Turkish trade. By the end of 1948, Turkey had spent almost all of its soft-currency accumulations ($66 million), even though steps were taken to reverse the trend in the spring.

At the present time Turkish trade statistics continue to show an unfavorable balance, largely because of continued delivery of goods purchased before the restrictions on dollar imports and because of difficulties experienced in selling exports.

Turkey is potentially a much larger producer of grain and other foodstuffs than it has been. An extension of the use of fertilizer, agricultural implements, and machinery, the reclamation of land through drainage and irrigation, and the improvement of transportation within Turkey can raise the standard of living of the Turkish people from the low levels of the past, and at the same time make greater quantities of foodstuffs available for export to other ERP countries. Exploitation of Turkey's mineral resources can provide Turkey with added exportable surpluses: at least one, chrome, is of great interest to the United States.

With regard to agriculture, which supports three-fourths of the population, the great need of Turkey is for modern equipment and modern farming techniques in order to increase production from existing farm land and to put additional acreage under cultivation. The results should be substantial, for present equipment and methods are generally primitive and the rate of production is low in terms of both manpower and acreage.

The Turkish requirement for ECA aid is primarily for the purpose of obtaining financing for a variety of industrial projects which will contribute to the ERP. The totals for the first two annual programs are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Turkey's request for gross dollar aid	85.3	94.2
OEEC recommendation of gross dollar aid	50.0	[a]
ECA estimate of gross dollar aid	39.7	30.0

[a] National submissions for 1949/50 not yet reviewed by OEEC.

The net ERP aid to Turkey in 1948/49 will be $28 million.

16. Western Germany.

Even more than recovery from the tremendous physical destruction during the war, the chief problem of Western Germany is recovery from the complete disorganization of economic life and political institutions which followed the defeat, and from the difficulties of adjusting to the separation from industrial Western Germany of the predominantly agricultural Eastern territories which were formerly a major source of food for the West.

The population of Western Germany is now about 66 percent as great as that of all Germany before the war, as the result of a large influx from the East. On the other hand, Western Germany accounted in 1936 for only 59 percent of total German industrial production and for only 45 percent of land being tilled. The loss of imports from the territory east of the Oder-Neisse, now under Polish administration, has deprived Western Germany of a major source of food supply. Under present conditions, it must import more than 40 percent of the food needed to support its population. It can pay for this food only by raising exports of manufactured goods to levels well above pre-war.

To raise exports to the required level, however, the economy of Western Germany must make much further progress. Industrial production, which at the end of 1948 was at about 78 percent of its 1936 level, must be raised by about 50 percent. Agricultural output must be raised to restore indigenous food production to its pre-war magnitude. The amount of food and manufactured products available to the population must be augmented sharply in order to provide a tolerable standard of living which, while remaining significantly below pre-war, would still provide the economic incentives necessary for efficient productive effort.

The recovery of Western Germany is necessary to enable it to become self-supporting and to avoid the political dangers which might well result from economic distress. A democratic Western Germany with a functioning economy can make valuable contributions to the recovery of all Western Europe, both by making available needed exports and by providing a market for products of other participating countries.

It can, thus, play an important role as a responsible member of a revived Western European community.

Many obstacles must be overcome before these objectives can be achieved. Effective government must be established. The financial structure must be put in order and government costs reduced. Germany's internal price structure must readjust to existing conditions. This will require acceptance of a lower standard of real incomes than before the war. Externally, a workable relationship must be reestablished between Germany's internal prices and world market prices for the commodities which Germany must import or export. Germany's trade relations with the rest of the world must be restored as rapidly as possible.

It will be necessary not only that Germany's industrial production be increased but also that the industrial structure be reoriented to make the most efficient use of available resources, particularly of increased manpower.

Following the surrender in May 1945, the German economy was in a state of almost complete collapse. Industrial production was at a virtual standstill. Imports ceased completely, except for food enough to prevent actual starvation which was brought in by the Western Occupying Powers.

Following the surrender, the territory east of the Oder-Neisse, which represented 24 percent of pre-war Germany's total land area, and 28 percent of its plowed area, was placed under the provisional administration of the Polish Government. The remainder of Germany was divided into four occupation zones operating as separate economic units. In 1947 the United States and the United Kingdom merged the economies of their two zones of occupation; during 1948 barriers between the Bizone and the French Zone were removed, and steps taken to integrate the foreign trade of the two zones through the Joint Export-Import Agency. Agreement was reached upon the establishment of a uniform ration standard for the two areas.

The totals of the first two annual programs for the Bizone and French Zone are summarized in the following table:

Bizone

	1948/49	1949/50
	(In millions of dollars)	
Bizone Request:		
Total aid	1083.0	912.1
Less GARIOA	—637.0	—539.7
ECA aid	446.0	372.4
OEEC Recommendation:		
Total aid	1051.0	a
Less GARIOA	—637.0	a
ECA aid	414.0	a

ECA Estimate:		
Total aid	984.0	880.6
Less GARIOA	—573.4	—476.6
ECA aid	410.6	404.0

French Zone

French Zone request for gross dollar aid	100.0	100.0
OEEC recommendation of gross dollar aid	100.0	[a]
ECA estimate of gross dollar aid	99.2	115.0

[a] National submissions for 1949/50 not yet reviewed by the OEEC.

During 1948/49 the Bizone has received external aid from three sources. These include a contribution by the British Government estimated at $70 million in sterling, direct appropriations through the Department of the Army under the Budget for Government and Relief in Occupied Areas (GARIOA) and from ECA. Originally it had been planned that the GARIOA appropriation would be $637 million and that ECA would provide $414 million. The actual amount of GARIOA funds for 1948/49 will be about $65 million below the original estimate. Only part of this difference may be compensated by the better than normal crops. Although exports to all countries are running considerably higher than originally anticipated, dollar exports will probably not exceed the original estimates significantly. Consequently, it is essential to maintain at least $410.6 million of ECA aid.

Since the beginning of 1948, particularly since the end of June, there has been substantial economic progress in Western Germany. This has been due, in part, to the large increase of industrial raw materials made possible not only by ECA aid but more importantly by revenue from the sale of exports. The exceptionally mild winter of 1947/48 increased the availability of coal to industry and the excellent crops of the past year permitted an increase in the food ration, which has greatly improved working morale and efficiency. The drastic currency conversion at the end of June restored normal economic incentives for the first time since the occupation and greatly stimulated all fields of activity.

As a result of all these factors, industry pushed ahead rapidly during 1948. The reported level of production in the Bizone increased from 44 percent of the 1936 rate in December 1947 to 78 percent in December 1948, a rise of more than 75 percent. Bizonal exports during 1948 were about two and a half times those of 1947. The food ration for the normal consumer was increased by 300 calories per day during the year, or to 1,850 calories. Allowing for supplemental rations and for off-ration consumption, this corresponds to an average food consumption by the non-farm population of about 2,450 calories. Despite the recent improvement, this remains about 15 percent below pre-war in quantity and the diet is seriously deficient in quality with a preponderance of starches and a continuing shortage of proteins, fats, and protective foods.

The level of industrial production in the French Zone has been somewhat lower than that in the Bizone. In June 1948 production had reached 51 percent of 1936, or the same relative level as in the Bizone. By October 1948 output was at 66 percent of the 1936 level as compared with 73 percent in the Bizone.

Despite considerable improvement during 1948, the availability of consumer goods in Western Germany also remains far below prewar, whereas requirements are well above normal because of the extreme shortage of supplies during recent years. Perhaps the most acute need is for adequate housing. Arrears of new construction and maintenance have accumulated since 1939. War damage has expanded this deficiency to a total in the Bizone of at least three million dwelling units, which is further aggravated by the large increase in population.

One of the most serious economic problems of the Bizone during the immediate post-war years was the enormous excess of currency, which resulted in extreme inflationary pressures and largely destroyed normal economic incentives. A drastic currency reform was introduced during June 1948, under which six and a half new Deutschemarks were given in exchange for each 100 old Reichsmarks; the six Deutschemarks were for free use while one-half Deutschemark was blocked for medium and long-term credits. At the same time there was a widespread relaxation of the very strict price and rationing controls which had previously existed.

The currency conversion proved to be a major economic stimulus. However, prices have advanced persistently since the reform. Early fears that the money supply would be too tight were apparently unfounded, and it is possible that further expansion of money circulation or credit would be dangerous. Proper use of the counterpart fund should help to combat this danger.

Further economic recovery in Western Germany cannot be achieved without continued substantial foreign aid. It is completely impossible for Germany's industries, at their present level of production, to provide the exports needed to pay for the imports of food required to provide even a minimum diet and for the raw materials without which its manufacturing plants could not operate.

D. METHODS OF DETERMINING ECA AID REQUIRED.

The different kinds of economic difficulties confronting the participating countries, which have been set forth in the preceding section, explain the need for a continuation of economic assistance by the United States in the immediate future. The progress achieved by these countries, which is also described above, is the best justification of the aid they have so far received. But neither the evidence of the results already achieved by the European Recovery Program nor an understanding of those circumstances that still prevent Western Europe from being self-supporting are sufficient in themselves to demonstrate the need for a specific sum of money in the current fiscal year or in the next. The purpose of the following paragraphs is to explain how the many qualitative judgments that enter into an appraisal of each country's economic situation and prospects may be reduced to quantitative terms.

It is impossible to answer the question "How much aid does a particular country require?" without a clear understanding of the economic function that is performed by United States dollars in promoting European recovery. It is, of course, apparent that the dollars loaned or granted to a participating country increase its command over economic resources. For the time being, they make that country wealthier. They make it possible for the people of the country to invest more capital in new plant and equipment, or in agricultural machinery, or in a larger animal population, or in the reconstruction of war damage, than they otherwise could with their own resources. It is, in part, as a mere quantitative supplement to European economic resources that American dollars contribute to recovery.

The need to increase the economic resources of Western Europe has been explained in the preceding section on the individual countries. One element of the task the Europeans must accomplish is the physical rehabilitation and improvement of their industrial and agricultural plant and equipment. Without adequate investment in physical facilities, European labor cannot be made sufficiently productive so that social stability will be possible in economies that are paying their own way. Moreover, the economic environment in which the countries of Western Europe must live has been drastically altered by the war. Major structural changes in their economies are required to adapt to the altered conditions of the post-war world. These adaptations involve the building up of new industries, the modernization of established ones, the reduction of costs, and the development of new resources in the overseas territories. Consequently, they demand heavy capital investment.

But at the same time that large resources are being invested in productive facilities, the peoples of Europe must maintain a minimum standard of living. Dietary levels must not be allowed to sink as low as they did toward the end of the war and again in 1947, and at least enough consumers' goods must be available on the shelves to provide some incentives for work and to give some value to European currencies. In part, then, the problem is one of making enough resources available to the Europeans so that their ability to produce will increase until they become self-supporting.

The mere amount by which European economic resources are increased is, however, no measure of the essentiality of American aid or of its contribution to recovery. There is a vital qualitative difference between the Europeans' own domestic resources and the dollar exchange which they earn or which they receive in the form of aid. In a real sense, an extra ten dollars' worth of those goods and services that only dollars can buy, may be far more valuable than an extra ten dollars' worth of indigenous labor or production. The problem of the participating countries is not merely the inadequacy of their total resources but the particularly acute shortage of foreign exchange. France or Britain may be short of the labor and cement and equipment to build bridges and factory buildings, but they are far shorter of the imported foodstuffs and raw materials that are needed to keep their economies running.

In the long run, the Europeans must and will find ways in which the products of European labor and resources can be exchanged for the goods and services Europe must buy from abroad, but the structural adaptation involved in balancing Europe's accounts with the rest of the world will take time and money. Until it is accomplished, foreign exchange will continue to be the scarcest of all economic resources.

The total of ECA aid is probably of the order of 5 percent of the combined national incomes of the participating countries. It is often argued that so small an amount could be deducted from the national incomes of most European countries without any catastrophic outcome. But this argument completely misses the point. In the short run, the lack of foreign exchange would mean the loss of those goods and services that are, precisely because dollars are so scarce, most essential to European producers and consumers. To deprive European countries of these resources before they have found the means of obtaining them readily in exchange for their own goods and services, would impose upon them reductions in their national incomes many times as large as the amount of aid withheld. Conversely, the provision of raw materials, fuel, and food from abroad alone makes possible the full and effective use by the Europeans of their own resources. It is for these reasons that a dollar of American aid is not merely one more dollar to go into consumption or into investment; it may be the means of getting several extra dollars' worth of production out of the economy to which it is supplied, so that one dollar of American aid means two or three or four dollars more of capital goods or consumers goods.

Viewed in this light, American aid provides the Europeans with the essential means of surviving and of producing for themselves while a major realignment of the Western European economy is being effected. Production is increasing in Europe and inflation is being brought under control in most countries. The basic problem remaining is that of Western Europe's trading position. Until Europe can exchange its own output for the imports that it needs, its economic position will be precarious. And much more than the recovery of production to pre-war levels will be required to achieve this balance. Not only the volume but the nature of European output must be altered. New merchandising organizations must be built up and new products produced. New trading partners need to be found from which adequate supplies of foodstuffs and raw materials can be obtained on terms of trade more favorable than those now prevailing. Costs of production will have to be lowered. There must be easier access to the whole of the internal West European market for all Western European producers. It is because these things cannot be accomplished overnight that American financial assistance is an essential part of the European Recovery Program. American aid is buying time for the Europeans, the time that they need in which to become self-supporting once again.

This account of the part American aid has played in promoting recovery suggests the way in which the needs of the various countries can be reduced to quantitative terms in order that the amount of aid required can be assessed. Since American dollars are additional economic resources, the amount of aid that is needed by a country must be appraised in terms of the level of consumption that it is essential to maintain and the volume of capital investment that must be carried forward if a country is to become self-supporting by mid-1952. More particularly, since American assistance takes the form of providing additional foreign exchange, this appraisal of the way in which all of the country's economic resources will be used must be translated into an estimate of its foreign exchange earnings and foreign-exchange expenditures. Thus, the basic worksheet in any calculation of the need for aid is a foreign exchange income and expenditure statement for the country in question. It is in this form that the results of the ECA's calculations are set forth.

It is tempting to believe that an economic program might be presented more simply as a list of capital development projects or of detailed commodity requirements. Factories and dams to be built or foodstuffs to be bought and shipped seem tangible and understandable, and their cost is easy to calculate. Such a program conveys a sense of clarity, simplicity, and precision that is wholly misleading. A list of projects and an estimate of their cost is misleading because it does not measure the need for foreign exchange. First, only a small part of the cost of a project in Europe has to be paid in dollars. It would be highly uneconomic for industrially advanced Western Europe to import more than marginal amounts of capital goods from North America. Therefore, the building of new factories, the re-equipping of mines, and the modernization of steel mills require in general only small direct dollar outlays. Second, the dollar outlays that must be made in connection with a list of projects are not necessarily either the only or the most essential foreign-exchange expenditures which countries must make. What Europe must have from abroad in order to live is food and industrial raw materials. United States aid is needed because Europe cannot yet pay for all of its food and raw materials through its own efforts.

The weakness of a program consisting of a detailed list of commodities is a more subtle one. Theoretically, the need for economic assistance could be expressed in terms of things as well as in terms of money. But detailed forecasts of the trade in particular commodities are so hazardous that they are quite properly mistrusted. The margin of error in a prediction even of national income more than a year in advance is large. A forecast of the chief components of such a statistical aggregate is usually more hazardous than that of the aggregate itself. The attempt to state with precision in February 1949 the number of tractors that should be imported into Austria in the fiscal year 1950 will yield interesting illustrative figures which should not, however, be used as the basis of a request for an appropriation of funds. To build up the total of aid needed by forecasting the requirements for innumerable commodities and by adding these bits and pieces together, is an attempt which depends upon hazardous forecasting of details rather than on somewhat safer predictions of the general volume and direction of trade, the level of economic activity, and other quantities about which a more reliable judgment is possible.

In order to come to grips with the problem, to minimize the hazards of forecasting, and also to avoid a quite unmanageable quantity of detail, the starting point of ECA's calculations was an economic analysis of each of the separate countries supplemented by an appraisal of the general situation of the participating countries as a group and of their common problems. So far as the data permitted, the availability and proposed uses of resources were examined so as to test the propriety of the level of consumption, actual and proposed, and of the actual and proposed rate of capital formation, both public and private. The purpose was to discover whether the country in question was currently enjoying or expected in the next fiscal year to enjoy a standard of living which would leave enough of a margin for the diversion of economic resources to other essential purposes, and whether it was experiencing or expected in the future a rate of capital formation apparently excessive in the light of its available resources. These tests could not be applied with precision, not only because the data are inadequate, but also because there is no easy criterion by which to judge the adequacy of living standards or rates of investment. Nevertheless, wherever there was an indication of an excessive use of resources, actual or proposed, in one of these major categories, the inference was drawn that fewer were needed, that the country could export more or import less, and that the requested volume of ECA aid was larger than necessary.

The next step in the analysis, which followed directly after such an appraisal of the functioning of the economy of each country, was to diagnose the causes of the lack of balance in its foreign trade. In some cases, such as that of the Bizone, this is plainly due to a low rate of production. In other cases, such as that of Belgium, the difficulty is that of a country which has traditionally enjoyed a surplus in its trade with other European countries and has previously been able to convert this surplus into dollars to cover a deficit in its trade with North America. In still other cases, such as that of the United Kingdom, the problem is that of a country which, before the war, covered its dollar deficit with the income of its foreign investments and invisible earnings and with its surplus in trade with areas producing food and raw materials and has been unable completely to reestablish these sources of income.

On the domestic side, the diagnosis revealed inflation in a number of countries, of which France is the most dramatic example. Inflation, suppressed or open, attracts resources out of the export industries, increases imports, and thus contributes to a deficit in foreign trade. In other cases, the diagnosis revealed evidence of excessive consumption or of over-ambitious programs of capital investment.

The nature of the treatment required obviously depends on the disease. To proceed from the diagnosis to an estimate of aid required, it was necessary first to assume that the country in question would achieve self-supporting status as rapidly as could reasonably be expected, and then to forecast what its balance of payments would be. The Bizone's program provides for a further sharp increase in production and exports; the Belgium program for some reduction in its export surpluses and its dollar deficit; the French program assumes that inflation will be brought under control and that its over-all balance of payments will show drastic improvement. Thus, the analysis of each country's situation and of its prospective use of resources, coupled with the diagnosis of conditions to be overcome in order to achieve recovery, provided the assumptions upon which its balance of payments could be forecast.

In employing this country-by-country approach every effort was made to cross-check the results. The first specific step in the analysis was to develop approximations of the separate national balance sheets, based entirely upon judgments as to the probable level of total exports and total imports, the direction and size of invisible payments and the level of capital payments. At the same time, studies of a number of the major commodity groups were in progress. These proceeded independently. Each dealt with the production, consumption and international trade in a single commodity or group of commodities in all of the European countries. For foodstuffs and feedstuffs, for example, the basic approach was a complete advance estimate and analysis, by United States Government agencies, of prospective production, utilization of supplies, reasonable consumption goals, and resulting import needs or export availabilities. The consumption thus forecast for agricultural products and supplies is at modest levels. Input factors for agricultural production were estimated at levels capable of sustaining a desirable and attainable measure of output, either for ultimate domestic consumption or for export. Certain much-needed improvements in food consumption have been made contingent upon larger indigenous output. Production prospects were appraised in accordance with the present state of known or partly known factors, for example, sown acreages, and with the average behavior of others, such as weather. Finally, no radical break in existing trade patterns has been postulated, and probable physical availabilities throughout the world have been taken into account.

In the final stages the two sets of estimates—the global approximations of the separate national balance sheets and the specific studies of commodities or commodity groups—had to be reconciled with one another. In a very real sense each set of judgments acted as a check on the other. Certain estimates of commodity imports were demonstrated to be unrealistic because it was apparent that the country in question would not be able to pay for the volume of imports from particular sources as forecast in the preliminary commodity analysis. In other instances, the original balance-of-payments estimates had to be corrected because goods would not be available from certain sources in the volume forecast, or because consumption levels implied were higher than justifiable.

Another complex and difficult test was imposed by the requirement of internal consistency; for example, the estimates of aggregate exports by participating countries to participating countries could not exceed the estimate of aggregate imports by participating countries from participating countries. Finally, wherever the test was not merely one of internal consistency, heavy reliance was placed on comparison with recent experience.

It is by the application of these methods that the ECA arrived at its estimates of the aid requirements for 1948/49 and 1949/50 described in the following sections of this chapter.

E. THE PROGRAM FOR 1948/49.

The ECA's initial appropriation of funds for the European Recovery Program totalled $4 billion, together with an authorization of a $1 billion public debt transaction and $10 million carried forward from Interim Aid (Public Law 389). This total of $5.01 billion was originally authorized for approximately 15 months ending on June 30, 1949. As specifically permitted by Public Law 793, however, the President determined, upon the recommendation of the Administrator, that the entire sum would be required for the first 12 months of the program. In accordance with this decision, some $4.294 billion out of the total of $5.01 billion have already been obligated and it is expected that the full amount (with the exception of funds required for administrative and other purposes) will be obligated by April 1, 1949. In consequence, the ECA requires an appropriation of funds to permit its operations to continue during the last (April-June) quarter of the current fiscal year.

No attempt has been made to undertake a separate calculation of the needs of the European countries for United States aid during the April-June quarter of 1949 as a separate accounting period. The first annual program prepared by the OEEC covers the 12 months of the current fiscal year. Consequently, the ECA's estimate of the need for economic assistance during the last quarter of the fiscal year is based upon the carefully prepared and exhaustively reviewed OEEC program for the whole of 1948/49. In the course of review by the ECA subsequent to its preparation by the OEEC, the program has been reduced by $119 million from the original total of $4.875 billion to a new total of $4.756 billion. The largest single reduction was an allowance of $40 million to cover the cost of industrial raw materials, the shipment of which and the payment for which would be delayed until the fiscal year 1950. Of the reduced total, some $3.618 billion can be covered by funds still available from the initial ECA appropriation. Consequently, if the reduced annual program is to be covered, there remains a balance of $1.138 billion of program funds to be provided for the last quarter of the current fiscal year. In addition, $11.5 million is required for non-program expenses.

Table 2 on the following page gives the allotments of funds to the participating countries during the first quarter of ECA operations, April, May, and June of 1948. It also shows the balance of the initial appropriation after these allotments had been made. Table 3 shows the 1948/49 fiscal year program, also by countries. The first column shows the OEEC-recommended program; the second the reduced annual program as it now stands; the third column, which is carried over from Table 2, shows the balance remaining from the initial appropriation to be applied against the first annual program; and the fourth column gives the amount of program funds required to be appropriated for the last quarter of the current fiscal year.

TABLE 2.

ECA Program, April 1948-March 1949
(In millions of dollars)

	Total April 1948-March 1949 (1)	April-June 1948 (2)	July 1948-March 1949 (3)
Austria	220.8	62.0	158.8
Belgium-Luxemburg and Belgian dependent overseas territories	216.0	20.0	196.0
Denmark	100.0	20.0	80.0
Free Territory of Trieste	18.2	4.0	14.2
France and dependent overseas territories	1,058.5	335.0	723.5
Germany: Bizone	416.1	109.0	307.1
French Zone	92.3	20.0	72.3
Greece	172.0	50.0	122.0
Iceland	7.5	2.3	5.2
Ireland	88.3	10.0	78.3
Italy	580.7	158.0	422.7
Netherlands and dependent overseas territories	483.0	115.0	368.0
Norway	81.8	20.0	61.8
Sweden	40.4	—	40.4
Turkey	44.8	10.0	34.8
United Kingdom	1,319.1	400.0	919.1
Commodity reserve	13.5	—	13.5
Total program funds	4,953.0	1,335.3	3,617.7
Strategic materials	2.6	—	2.6
Ocean freight on relief packages	11.5	—	11.5
Technical assistance	3.0	—	3.0
Investment guaranties	27.7	—	27.7
Administration	12.0	1.2	10.8
Confidential fund	0.2	—	0.2
Total ECA funds	5,010.0	1,336.5	3,673.5

A word is in order on the allotments of funds that were made for the first quarter of ECA operations (April-June, 1948). The ECA came into existence early in April, 1948. Clearly, there was no opportunity for this organization to prepare a quarterly supply program in any detail. Nor was the newly created OEEC in a position to submit any estimates of the requirements of individual countries for particular goods and services. Yet, the need for ECA financing was urgent and acute. Those countries that had received Interim Aid had their supply pipelines fairly well filled. But unless ECA financing became immediately available, the pipelines would soon have begun to empty. Most of the countries of Europe had kept imports flowing only through dangerously rapid drawing down of their hard-currency reserves. These operations had already gone too far for safety in a number of countries. It was everywhere apparent that the major objectives of the ERP would be jeopardized unless the flow of ECA funds could commence at once.

Under these circumstances, the ECA leaned heavily upon the highly competent preparatory work of the State Department. In anticipation of the situation that would face a new agency, quarterly supply programs for all of the participating countries had already been prepared by the State Department on the basis of the best information available in Washington. These programs were never formally approved by the Administrator, but they served as guides in the issuance of procurement authorizations to the participating countries during the first months of ECA operations.

TABLE 3.

Proposed ECA Program for Fiscal 1948/49
(in millions of dollars)

	OEEC aid recommendation (1)	ECA-proposed aid (2)	Allotments[a] from current appropriation (3)	Supplementary allotment requested (4)
Austria	217	215.2	158.8	56.4
Belgium-Luxemburg and dependent overseas territories	250	247.9	196.0	51.9
Denmark	110	109.1	80.0	29.1
Free Territory of Trieste	18	17.8	14.2	3.6
France and dependent overseas territories	989	980.9	723.5	257.4
Germany: Bizone	414	410.6	307.1	103.5
French Zone	100	99.2	72.3	26.9
Greece	146	144.8	122.0	22.8
Iceland	11	5.2	5.2	—
Ireland	79	78.3	78.3	—
Italy	601	555.5	422.7	132.8
Netherlands and dependent overseas territories	496	469.6	368.0	101.6
Norway	84	83.3	61.8	21.5
Sweden	47	46.6	40.4	6.2
Turkey	50	39.7	34.8	4.9
United Kingdom	1,263	1,239.0	919.1	319.9
Commodity reserve	—	13.5	13.5	—
Total program funds	4,875	4,756.2	3,617.7	1,138.5
Strategic materials	—	4.6	2.6	2.0
Ocean freight on relief packages	—	15.5	11.5	4.0
Technical assistance	—	5.0	3.0	2.0
Investment guaranties	—	27.7	27.7	—
Administration	—	14.3	10.8	3.5[b]
Confidential fund	—	0.2	0.2	—
Total ECA funds	—	4,823.5	3,673.5	1,150.0

[a] See Column 3, table I.
[b] Actual administrative expenses for the quarter are estimated at $4.5 million, the remaining $1 million to be financed out of funds already appropriated for administration.

This first quarterly program was conditioned, also, by the immediate needs of the participating countries as these became apparent during the spring of 1948. The total amount of allotments for the quarter was slightly in excess of one-fourth of the first annual appropriation. The allotment figures are, however, misleading because no loan agreements were signed and no loan funds were obligated until well after the end of the quarter. It was partly for this reason that the grant-in-aid allotments had to be of such an amount as to make the total allotments greater than one quarter of the initial appropriation.

It was not until the first quarter of the fiscal year 1949, and not really until the submission of the first annual program by the OEEC in October 1948, that the ECA was able to appraise more carefully and accurately the needs of the European countries for aid in the first year of the ERP. The supply program for the July-September quarter was the first one produced by the ECA in cooperation with the OEEC. The resulting estimates of needs were subject to a wide margin of error, because both organizations were not yet adequately staffed, information was still incomplete, programming techniques not yet fully learned, and no annual program as yet existed to serve as a framework for the quarterly procurement operations. It was understood that the annual program to be prepared by the OEEC would supersede this interim quarterly program for the first quarter of the fiscal year.

The OEEC's work on the first annual program began in mid-summer, 1948. The ECA requested the European organization to assume the responsibility of recommending amounts of aid to be extended to the individual countries. The amount of the appropriation itself set an upper limit upon the amount that could be recommended by the OEEC and it was advised by the ECA of deductions from the total appropriation that had to be made to cover administrative and other non-program expenditures of the ECA.

The OEEC's work was completed in early October, at which time the first annual program was formally handed to the Administrator as a recommendation of the OEEC. Thereafter, it was subjected to the most careful and exhaustive examination by the Office of the Special Representative in Paris and the ECA staff in Washington. Each country presented to the OEEC (1) forecasts of its domestic production, consumption, etc.; (2) estimates of expenditures to be made for imports of essential goods and services and of earnings to be derived from the sale of exports; and (3) an income and expenditure statement giving its estimated foreign-trade position. Both the OEEC in its scrutiny of the national submissions and the ECA in its careful review of the OEEC program, re-examined the judgments implicit in all of these figures. The ECA's review has changed the OEEC program in many of its details, but it was the judgment of the ECA that the specific amounts of aid recommended by OEEC for the several countries were substantially correct.

Although no major revision of the OEEC aid figures seemed to be called for at the time of their submission, the ECA reserved the right of continuous review both of progress within the recommended program and of the need for economic aid during the current fiscal year. As noted above, a number of reductions in the amounts of aid have been made since October 1948 in the subsequent process of continuous review. Among the most important were those necessitated by (1) the unwillingness of the ECA to allow for certain dollar payments in the

British balance of payments; (2) the suspension of the Indonesian program; and (3) the lag in the shipment of certain industrial raw materials.

Aside from special and rather technical circumstances, however, no evidence has appeared that would require or justify a drastic change in the allocations of aid recommended by the OEEC. Moreover, it is the stated policy of the ECA to make such changes only where they are clearly justified. It is of very great importance to the success of the ERP that, once a specified amount of aid has been allotted to a country, the amount should remain fixed for at least a year unless the most compelling circumstances justify a change.

The alternative would be to increase a country's allocation of aid during the course of the year if it could demonstrate that it was seriously short of dollar exchange and, likewise, to reduce the amount of aid extended to any country that seemed to have adequate dollar resources. But such a policy would blatantly reward failure and penalize success. The country that failed to live within its means would have a claim on additional aid and the country that managed to accumulate some additional hard currency reserves would have its aid reduced. There could scarcely be a policy more ingeniously designed to encourage the free and easy spending of dollars and to discourage the participating countries from balancing their external accounts.

There must, of course, be a periodic reappraisal of the situations of the several participating countries. It is plainly not the intent of the Congress that any country should continue to receive aid after the need has disappeared. And it would be demoralizing to continue United States aid to any country in a volume greater than that originally needed. But aside from such periodic reappraisals, there is a strong case for leaving aid figures fixed for the entire fiscal year. If a country manages to live within its means, including the aid it receives, in one accounting period, that may well be a reason for providing less aid in the next year of the program. But the country should not be criticized or penalized in any other way for its thrift.

Quite aside from the desirability of leaving the aid figures relatively unchanged, the evidence that has come in as the year has progressed supports the figures that are submitted in this document. In the light of actual performance, there have been many changes in commodity import programs, and there have been certain larger developments unforeseen when the OEEC's program was prepared, but these are not of such a character as to justify changes in the amount of aid.

Several of the more important developments are, nevertheless, worthy of mention as examples of divergences between the forecast of five months ago and actual developments. The basic test of the correctness of the amount of aid being extended is the foreign-exchange balance sheet of the countries concerned. Two or three of the participating countries have apparently been able to accumulate some hard currency reserves during the past few months. Of these, Italy has probably been the most successful. In that case, the accumulation of reserves is not a sign that excessive amounts of ECA funds are being provided but rather of the low level of industrial production and, consequently, of imports of industrial raw materials. The Bizone is another country that has improved its balance-sheet position but here, again, this reflects an unhealthy and almost certainly temporary dip in imports rather than an over-estimation of the real and long-term need for foreign exchange resources.

Belgium may be mentioned as still another participating country that has more than maintained its reserves but, in this case, the result is accounted for differently. The Belgians have received roughly $175 million, mainly from other participating countries, during the calendar year 1948 as settlements under their bilateral-trade agreements. This has served to maintain Belgium's hard-currency reserves and to permit rather generous dollar imports but it has been an added drain upon the dollar resources of the other participating countries who made payments to Belgium. Unravelling the shifts in hard currency reserves from one participating country to another is extraordinarily difficult but nevertheless must be taken into account in estimating their positions.

France is in the reverse position from that of the three countries mentioned above. France has continued to draw heavily this year on its holdings of dollar securities, but it is doubtful whether this may be taken as evidence that the French dollar deficit was under-estimated and that the amount of aid provided for the current year has been too small. France is an outstanding case of a participating country in which inflation is still a major problem. Inflation increases the foreign-exchange deficit in various ways outlined in an earlier section of this chapter. It may be said, therefore, that the amount of aid provided to France this year was sufficient to cover its dollar deficit, provided France had been able after the middle of 1948 to control its inflation. The annual aid allotment did not, however, contain any allowance for the effects of the inflation that has been running its course in France since the late spring of 1948.

Norway and the Netherlands are examples of countries that are barely able to live within their means with the amount of aid allocated to them this year. Inflationary pressures, though not eliminated, are effectively repressed and, in both countries, the standard of living is austere. Probably both will experience some loss of monetary reserves by the end of the year. In spite of the austerity of its standard of living, the magnitude of its recovery effort, and the success of its export drive, the United Kingdom will be barely able to keep its reserves intact.

The actual calculations of the amount of aid required for the current fiscal year are summarized in the following consolidated balance of payments tables:

TABLE 4.

Summary Balance of Payments 1948/49; OEEC Estimate
15 Participating Countries [a]
(In million dollars)

	Dollar account			Non-dollar account	Grand total
	U. S.	Other	Total		
1. Imports	4,015.3	2,352.8	6,368.1	13,008.4	19,376.5
2. Exports	707.9	1,138.0	1,845.9	11,703.4	13,549.3
3. Merchandise balance	—3,307.4	—1,214.8	—4,522.2	—1,305.0	—5,827.2
4. Invisibles (net)	—609.5	—313.3	—922.8	+707.5	—215.3
5. Current account balance	—3,916.9	—1,528.1	—5,445.0	—597.5	—6,042.5
6. Settlements	+42.0	—227.5	—185.5	—	—
7. Capital transactions					
a Non-ECA financing	+142.1	+65.5	+207.6	—	—
b. Repayments	—170.0	—23.7	—193.7	—	—
c. Other	+677.0	—8.5	+668.5	—	—
8. Net position	—3,225.8	—1,722.3	—4,948.1	—	—
9. Est. requirements for U. S. aid	—	—	—4,722.8	—	—
10. Uncovered deficit	—	—	286.7 [b]	—	—

[a] Excludes Netherlands DOT Indonesia, Portugal, Switzerland, Turkey, and Trieste.
[b] Excludes $62 million contained in the Bizone request for aid but not included in the imports line of the table.

TABLE 5.

Summary Balance of Payments 1948/49; ECA Estimate.
15 Participating Countries [a]
(In million dollars)

	Dollar account			Non-dollar account	Grand total
	U. S.	Other	Total		
1. Imports	4089.1	2149.4	6238.5	12995.9	19234.4
2. Exports	764.7	1196.9	1961.6	12196.7	14158.3
3. Merchandise balance	—3324.4	—952.5	—4276.9	—799.2	—5076.1
4. Invisibles (net)	—421.2	—286.8	—708.0	840.2	132.2
5. Net Current Position of DOT's	—202.6	— 35.6	—238.2	69.0	—169.2
6. Current Account Balance	—3948.2	—1274.9	—5223.1	110.0	—5113.1
7. Settlements	42.0	—163.1	—121.1	—	—
8. Capital Transactions:					
a. Non-ECA financing	184.2	83.5	267.7	—	—
b. Repayments	—209.5	— 32.7	—242.2	—	—
c. Other	634.2	14.0	648.2	—	—
9. Net Position	—3297.3	—1373.2	—4670.5	—	—
10. Estimated Requirements for U. S. Assistance	—	—	4624.2 [b]	—	—
11[a]. Uncovered Deficit	—	—	145.6	—	—
11[b]. Accumulation of Reserves	—	—	99.3	—	—

[a] Excludes Netherlands DOT Indonesia, Portugal, Switzerland, Trieste, and Turkey.
[b] Total ECA proposed aid for 1948/49 is $4,756.2 million. Estimated requirements for U. S. assistance of $4,624.2 million in line 10 of above table excludes the following:

	(millions)
Netherlands DOT Indonesia	$61.0
Trieste	17.8
Turkey	39.7
Commodity Reserve	13.5
	$132.0

For the fifteen countries for which comparisons are possible (see tables 4, 5, 7 and 8), the OEEC estimated that the combined deficit on dollar account in 1948/49 would amount to about $5.45 billion. The comparable ECA estimate is $5.22 billion. For the same group of countries, the OEEC report on the first annual program indicates a dollar deficit on current account in 1947 of about \$6.8 billion. The OEEC estimates for 1948/49 are based on the assumption that assistance to European recovery in 1948/49 by the United States would amount to approximately \$4.875 billion and, therefore, represent not estimates of requirements but of total resources, including their own dollar earnings and extraordinary assistance, available to finance an import surplus. In both sets of estimates a notable improvement in the current account position between 1947 and the current fiscal year is anticipated, amounting to 20 to 25 percent.

The OEEC forecast puts the level of dollar imports at about \$6.370 billion (of which imports from the United States amount to \$4.015 billion), as compared with the ECA estimate of \$6.238 billion (of which the United States component is about \$4.090 billion). The coupling of this revision of the import estimates, which is in part attributable to changes in prices rather than in the volume of trade, with an increase of about \$100 million in the export estimates explains the difference between the OEEC and the ECA estimates of the current account deficit.

In terms of the value of total imports by the participating countries, the difference between the OEEC and the ECA estimates is slight, amounting to a little more than one percent of the total of more than \$19 billion equivalent. In view of the nature of the estimates and the inadequacy of information on the prices at which non-dollar trade takes place, this difference can be disregarded.

There is, however, a significant difference between the over-all deficit on current account as forecast by OEEC and by the ECA. The ECA has throughout adopted favorable assumptions on economic trends in the participating countries. It believes that the reduction of the over-all deficit on current account in 1948/49 from the level of about \$6.04 billion forecast by OEEC to a level of about \$5.11 billion, or a reduction by one-sixth, is possible of attainment while maintaining, though not improving, living standards. It is very important that the over-all deficit be steadily reduced for this is the measure of the ability of the participants to move progressively toward self-support.

It is important to note that, according to the most recent information available to the ECA, amortization payments to the United States and, to a lesser extent, on other dollar obligations, are already a significant item in the balance of payments and are expected to exceed financing available from non-ECA sources, such as other lending institutions, private investment, and other Western Hemisphere countries, by about \$25 million in the current fiscal year. This will constitute an increasingly important drain on the dollar earnings of the participating countries, and amounts in the current year to about one-eighth of earnings on dollar exports.

The total dollar deficit on current and capital account of the fifteen countries amounts to nearly \$5.60 billion. This deficit will be financed principally by assistance made available under the ERP (\$4.624 billion) and by the United States contribution for relief in Germany (GARIOA) estimated at \$573 million. It is also expected, however, that certain countries, notably Belgium, France, Sweden, and the United Kingdom, will be compelled to draw down their monetary reserves by a total of about $210 million or to make adjustments in their import programs. Furthermore, it is estimated that nearly $220 million of new financing might be available to the participating countries from non-ECA sources.

F. THE PROGRAM FOR 1949/50.

The ECA is requesting $4.2 billion of program funds and $80 million of non-program funds for the fiscal year 1950. The ECA is also asking for authority to commit during the fiscal year 1950 an additional $150 million to authorize the purchase of goods and services by the participating countries on which disbursements will not be made and for which an appropriation will not be requested until the fiscal year 1951.

1. Economic Objectives of the Program.

The coming year will be in many respects the most critical year of the recovery program. If the major objectives are to be achieved by mid-1952, the main foundations of the recovery program must be laid by the end of 1949/50 and substantial progress must be made towards readjustment in those countries which have reached that phase of recovery.

Each of the participating countries except Switzerland has prepared a program for 1949/50 covering its proposed use of resources for consumption, capital investment, and exports, and forecasting the magnitude of the resources which it will have available from production and imports to cover the proposed uses. In addition, the participating countries have made forecasts of their balance-of-payments positions which would result from their proposed resources programs. The following paragraphs summarize the picture of Western Europe during 1949/50 which emerges from these individual national programs.

Industrial production is expected to increase by 5 to 10 percent over 1948/49 and by the end of the next fiscal year will reach a level about 15 percent above pre-war. Agricultural output should continue to increase though it may not, in terms of energy, reach that of the post-war record season of 1948 which resulted from unusually favorable weather conditions.

Investment is expected to make steady progress and the countries will continue to devote about 20 percent of their gross national product to capital formation. Notable increases are planned in coal, steel, and electrical capacities. The restoration of the European transportation system should be nearing completion by the end of the next program year.

The large investment program should permit very little increase in the consumption standards but some countries are nevertheless proposing fairly significant rises. A diversion of resources from investment and exports must be carefully assessed and it may well be that certain countries cannot yet afford to relax their consumption policies.

The proposed total import program for 1949/50 is of the same general order of magnitude as 1948/49, which, in turn, is about 15 percent below that of 1938 in volume. The composition of this import program will change in accordance with the requirements of recovery. The countries propose a greater emphasis on industrial raw materials and machinery and less on foodstuffs and coarse grains.

During the year, there is expected to be a considerable improvement in the relation between exports and imports. The earnings of Western Europe from exports to the outside world are expected to cover 62 percent of the cost of its imports, compared with 50 percent in 1948/49 and less than 40 percent in 1947. This improvement will result from increased earnings from exports and increased receipts from the tourist trade and merchant shipping.

2. ECA Review of the National Programs for 1949/50.

It has been necessary for the ECA to prepare a preliminary and illustrative division of aid among the countries for the fiscal year 1950 and to arrive at a total figure before the OEEC has screened the individual national programs and made its own recommendations. As will be seen later, the OEEC has had an opportunity only to arrive at a preliminary estimate of the total dollar aid needed for Western Europe as a whole. During the few months of its existence, it has completed its first annual program and has done considerable work on the long-term program. Since the latter should be the framework within which each annual program is fitted, the OEEC wisely gave priority to the work on the long-term program.

The ECA made its estimates on the basis of the individual national programs submitted by each of the participating countries to the OEEC. The total request of the participating countries for United States aid in 1949/50 amounted to $4.690 billion. This reduction from the OEEC program figure of $4.875 billion for 1948/49 was achieved almost entirely by lower requests for aid from the United Kingdom and, to a lesser extent, from France and the Bizone. The other countries either requested amounts of the same magnitude as they are receiving in 1948/49 or asked for greater aid. Among the latter were Sweden, Norway, Denmark, Greece, and Turkey. Portugal submitted a request for aid for the first time.

Employing the method of analysis described in an earlier section of this chapter, the ECA arrived at an estimate of $4.2 billion as the amount of aid required by the participating countries for the fiscal year 1950. This ECA estimate can be compared with the recommendations of the OEEC for the second program year. As noted before, the method employed by the OEEC in making its recommendation for 1949/50 differs substantially from that used by the ECA. The national programs as submitted by the participating countries to the Organization were statistically summarized into a consolidated balance sheet and the OEEC applied certain rough criteria to the resulting consolidated import program. Chief among these was that consumption levels should not exceed 1948/49 where such increases would involve additional dollar expenditures. However, the OEEC recognized that there may be special cases in which an increase in food consumption over the 1948/49 level might be justified and, consequently, allowed in its revision of the consolidated import program for an increase of 2.5 percent. The net result of the difference between the modest increase recommended by the OEEC and the rather large increases proposed by the participating countries in their program submissions was sufficient to reduce the magnitude of the OEEC consolidated import program by $216 million. Other reductions were made by the OEEC in the total proposed import of certain consumer goods and industrial equipment and the estimate of freight costs was correspondingly reduced.

As a result of these various reductions, the OEEC arrived at a figure of $4.347 billion of ECA aid necessary for 1949/50.

It will be seen that the approach employed by the OEEC is wholly different from that of the ECA. The OEEC screened the consolidated totals for all of the participating countries as a group; the ECA screened the program of each individual country and then added the results of its individual appraisals together in order to arrive at a total aid figure for the whole group of countries. Specifically, the ECA method has made possible a more rigorous appraisal of the national programs and, in the case of some countries, the aid figures arrived at by the ECA are less than sufficient to cover their external dollar deficits. Taking account of these differences in approach, the OEEC figure of $4.347 billion does not diverge markedly from the ECA figure of $4.2 billion.

The determination of the actual distribution among countries of such funds as the Congress may decide to appropriate for European aid during the fiscal year 1950 will develop in two steps. The assembling of new national submissions, the making of forecasts and the formulation of policy judgments for the best utilization of European resources has been and will continue to be the responsibility of the OEEC. The report of the OEEC and its recommendations for the division of aid, when completed, will be reviewed both by the European organization of the ECA and by the Administrator's staff in Washington prior to final decision by the Administrator. It would be only then that the program for the division of aid for the fiscal year 1950 would be promulgated and even that program would be subject to continuous review and adjustment in the light of actual events. The participating countries are wholly familiar with this procedure and will, therefore, understand that the text and statistical tables for 1949/50 in this document may not be used to support any request, either to the OEEC or the ECA, for aid in any particular amount for any country or for any particular purchase or payment.

3. ECA Illustrative Program for 1949/50.

Table 6 shows the amount of aid requested by each participating country for 1949/50 and the illustrative division prepared by the ECA. The 1948/49 allotments are given for purposes of comparison.

The individual balance of payments tables of the participating countries have been consolidated into an illustrative balance of payments summary for the nations as a group which is shown in Tables 7 and 8.

Both the participating countries and the ECA expect further substantial improvement in the over-all current account position in 1949/50 as compared to their respective estimates for 1948/49. The participating countries have estimated their combined over-all deficit at about \$5.111 billion in 1949/50, or a reduction of 15 percent from the OEEC estimate for 1948/49. The ECA expects that the over-all deficit might be reduced to about \$4.25 billion, or by about 15 percent from the level shown in the ECA 1948/49 program. Both the participating countries and the ECA expect that this improvement will occur with rising levels of trade, with the increases in exports and in invisible earnings more than offsetting the increase in imports. In 1949/50, the ECA believes that the participating countries might achieve a small surplus on non-dollar current account.

TABLE 6.

ECA Illustrative Aid Program for 1949/50
(In millions of dollars)

Country	National requests, 1949/50 (1)	ECA illustrative division of aid 1949/50 (2)	1948/49 ECA program (3)
Austria	217.0	197	215.2
Belgium-Luxemburg and Belgian dependent overseas territories	250.0	200	247.9
Denmark	110.0	109	109.1
Free Territory of Trieste	12.8	12	17.8
France and dependent overseas territories	890.0	875	980.9
Germany: Bizone			
ECA 372.4	372.4	404.0 404	410.6 410.6
GARIOA 539.7		476.6	573.4
Bizone total 912.1		880.6	984.0
French Zone	100.0	115	99.2
Greece	198.1	170	144.8
Iceland	10.0	7	5.2
Ireland	75.4	64	78.3
Italy	610.4	555	555.5
Netherlands and dependent overseas territories	507.0	355	469.6
Norway	131.8	105	83.3
Portugal	100.6	10	—
Sweden	70.7	54	46.6
Turkey	94.2	30	39.7
United Kingdom	940.0	940	1,239.0
Commodity Reserve	—	—	13.5
Total	4,690.1	4,202	4,756.2

The dollar deficit on current account in 1949/50 is estimated by the ECA at about \$4.77 billion, as compared with \$5.22 billion in 1948/49. Total dollar imports are expected to rise by approximately \$160 million, but this will be more than offset by an increase in dollar exports of nearly \$320 million and a reduction of expenditures on shipping, insurance, interest and other invisible items of about nearly \$250 million.

Amortization payments on dollar obligations will again be an important item in the dollar deficit, amounting to nearly $230 million, but it is hoped that approximately $265 million of new financing from non-ECA sources in the United States and from other Western Hemisphere countries will be available to the 15 countries included below. It is hoped that an additional $40 million of new financing will

TABLE 7.

Summary Balance of Payments 1949/50; National Estimates
15 Participating Countries [a]
(In million dollars)

	Dollar account			Non-dollar account	Grand total
	U. S.	Other	Total		
1. Imports	4029.1	2368.4	6397.5	14408.4	20805.9
2. Exports	823.0	1315.4	2138.4	13369.1	15507.5
3. Merchandise balance	—3206.1	—1053.0	—4259.1	—1039.3	—5298.4
4. Invisibles (net)	—401.3	—247.0	—648.3	+834.8	+186.5
5. Current account balance	—3607.4	—1300.0	—4907.4	—204.5	—5111.9
6. Settlements	+122.0	—185.8	— 63.8	—	—
7. Capital Transactions:					
a. Non-ECA financing	+ 6.0	+132.0	+138.0	—	—
b. Repayments	—163.1	— 35.7	—198.8	—	—
c. Other	+537.7	—	+537.7	—	—
8. Net position	—3104.8	—1389.5	—4494.3	—	—
9. Est. requirements for U. S. Assistance	—	—	4390.5	—	—
10. Uncovered deficit	—	—	103.8	—	—

[a] Excludes Netherlands DOT Indonesia, Portugal, Switzerland, Trieste, and Turkey.

TABLE 8.

Summary Balance of Payments 1949/50; ECA Estimate
15 Participating Countries [a]
(In million dollars)

	Dollar account			Non-dollar account	Grand total
	U. S.	Other	Total		
1. Imports	4221.8	2169.3	6391.1	14044.8	20435.9
2. Exports	851.5	1426.8	2278.3	13624.5	15902.8
3. Merchandise balance	—3370.3	—742.5	—4112.8	—420.3	—4533.1
4. Invisibles (net)	—234.6	—225.3	—459.9	+885.6	425.7
5. Net Current Position of DOT's	—176.3	— 16.5	—192.8	+ 43.6	—149.2
6. Current Account Balance	—3781.2	—984.3	—4765.5	+508.9	—4256.6
7. Settlements	+122.0	—158.0	— 36.0	—	—
8. Capital Transactions:					
a. Non-ECA financing	+131.0	+132.0	+263.0	—	—
b. Repayments	—193.1	— 36.1	—229.2	—	—
c. Other	+476.6	— 6.1	+470.5	—	—
9. Net Position	—3244.7	—1052.5	—4297.2	—	—
10. Estimated Requirements for U. S. Assistance (rounded)	—	—	+ 4140.0 [b]	—	—
11. Uncovered Deficit	—	—	156.3	—	—

[a] Excludes Netherlands DOT Indonesia, Portugal, Switzerland, Trieste, and Turkey.
[b] Total ECA proposed aid for 1949/50 is $4,202 million (rounded downward to $4,200 million in total request). Estimated requirements for U. S. assistance of $4,140 million in line 10 of above table excludes the following:

	(millions)
Netherlands DOT Indonesia	$10.
Portugal	10.
Trieste	12.
Turkey	30.
	$62.

be available for the other participating countries. The total dollar deficit of nearly $4.8 billion will again have to be financed very largely by assistance from the United States to European recovery and to relief in Western Germany. However, the ECA estimates that certain participating countries, notably Belgium, France, and the United Kingdom, will be required to draw down their monetary reserves by about $150 million to meet their dollar requirements in 1949/50.

G. INDUSTRY AND AGRICULTURE.

The economic structure of Western Europe, like that of any other highly industrialized area, is a vastly complex and inter-related system. Its continued functioning requires the constant input of at least minimum quantities of essential supplies, the composition of which can only be altered slowly and within defined limits. Failure to provide adequate supplies for any single critical sector may result in the breakdown of the entire structure.

Inadequate food imports will result in reduced labor efficiency and increased absenteeism. Textile production is dependent completely on imports of cotton and to a considerable degree on imports of wool; an inadequate volume of such imports will result in reduced textile exports and in reduced availabilities of clothing for the civilian population. In turn, inadequate supplies of consumer goods such as food and clothing will contribute to inflation, the effect of which will be to reduce investment, increase consumption and hoarding, and restrict exports. Inadequate supplies of raw material imports such as copper and lead will result in reduced production of such products as electrical generating and transmission equipment. This in turn will restrict the expansion of electric-power output upon which the growth of the whole of industry depends.

Inadequate supplies of a single commodity may result in the uneconomic consumption of a more valuable commodity which is available. For example, in the past domestically produced breadgrains have been fed to livestock because of the shortage of imported animal feedstuffs. Lack of availability of one import will in general result in a corresponding increase in the demand for a relatively more available substitute. Copper, for example, is to a considerable degree being replaced in electrical uses by aluminum, a less efficient and, consequently, more costly substitute. On the whole, lack of availability of the most desirable and efficient commodity for any important use will result, not in an over-all saving, but either in a greater over-all expenditure for a less efficient substitute, or in a reduction of the general level of economic activity and a corresponding decrease in earnings from exports.

The 1949/50 program as reviewed by the ECA appears to be generally in balance and to provide the basis for maximum recovery per unit of aid granted. The final determination of each individual requirement will be dependent upon a variety of factors such as the levels of both European and world agricultural and industrial output which cannot be predicted with any degree of finality at this time.

The general framework of industrial and agricultural recovery planned in 1949/50 is presented below.

1. Industry.

On the whole, industry in Western Europe has now recovered to a level roughly comparable with pre-war. The period between now and mid-1952 will be devoted to the elimination of the remaining industrial bottlenecks; to development of the industrial facilities which will make the greatest contribution to the solution of the balance-of-payments problem; and to reductions in costs so that exports can compete in world markets. These requirements necessitate the adoption by the participating countries of investment programs which are selective in character. Western Europe cannot afford to devote more than about 20 percent of its gross product to capital formation. The size of this investment program is insufficient to permit any waste of resources in the expansion or modernization of lines of industry which may be redundant in Western Europe. Nor can Western Europe afford to devote investment resources to the improvement of industries whose products make only small contributions to the increase of exports or the reduction of imports. The selective principle must be applied not only within each country's investment program but also by the OEEC in integrating the national programs into coordinated investment goals for Western Europe as a whole.

The restoration and expansion of energy production is one of the basic problems of European recovery. In 1938, coal supplied 85 percent of Europe's energy requirements, petroleum 9 percent, and hydroelectric power 6 percent. The participating countries plan that by 1952 coal will be relatively less important although still predominant, and will supply 78 percent of the total as compared to 12 percent for petroleum and 10 percent for hydroelectric power. The total energy supply from all sources is expected to increase by 26 percent above 1938. This increase is approximately the same as the increase expected in industrial output during the recovery period. Non-essential uses of coal and electric energy are now restricted; coal and electricity will probably not be freely available to all consumers at least until close to the end of the program. The energy program, nevertheless, should be adequate, even though both the industrial and the agricultural investment programs envisage a greater mechanization and consequently a greater energy consumption per unit of output than existed in the pre-war period.

In 1947, the total energy supply for all participants was equivalent to 515 million tons of coal; in 1948/49 it will rise to 569 million tons and in 1949/50 to 602 million tons, about 9 percent above 1938. Of these totals, 86 percent will be provided by European production in 1948/49, and 87 percent in 1949/50. Coal and petroleum imports from the Western Hemisphere will supply 7 percent of total energy requirements in 1948/49 and 6 percent in 1949/50. Although these imports from the Western Hemisphere are a relatively small part of total requirements, they are nevertheless critical; together with indigenous production and imports from other areas, they provide the minimum supplies necessary to sustain the planned levels of industrial and agricultural production.

Coal production has now recovered to the point where shortages no longer hamper the effective operation of essential industries and services. Imports of American coal have fallen to half of the volume imported in 1947, and before 1952 should cease completely.

Hard coal production is expected to increase by 32 million tons from 410 million tons in 1948/49 to 442 million tons in 1949/50. Because of the increased levels of industrial production, consumption will increase by 25 million tons during the same period. Imports from the United States will accordingly drop from 16 to 10 million tons or from over 3 percent to about 2 percent of total requirements.

It will now be necessary for Western Europe to introduce these adjustments in coal production and distribution which must be made to insure an adequate supply of coal at competitive prices in 1952. The present difficulties of the coal-mining industry in many countries are not products of the war but can be attributed to conditions between the wars which discouraged investment and modernization and deterred young men from entering the mines. Both of these deficiencies will take years to overcome. The program of re-equipment and modernization in the mines will take at least ten years to complete and, as a result, little increase in efficiency will be realized by mid-1952. Hard coal production in 1952/53 as estimated by OEEC will be 511 million tons, about 11.2 percent above the 1935-38 average.

The problem of meeting Europe's growing requirements for petroleum is of a different nature. Since practically all oil has to be imported either in the form of crude oil or refined products, the question of foreign exchange and of the over-all balance of payments is of great importance.

At the outset of the recovery period, Western Europe needed all the petroleum that it could obtain to help in the restoration and expansion of industrial activity and, until about a year ago, expanded its consumption rapidly. In the fiscal year 1950, however, it is believed that all essential needs can be met with a consumption level only about 7 percent above that estimated for the fiscal year 1949. The ECA also estimates that approximately similar annual increases will meet essential needs during the remainder of the ERP period.

The economic progress is reflected in the increased use of petroleum products expected in commerce, industry and agriculture during the fiscal year 1950. The following percentages show the expected increase over the pre-war period: motor trucks and buses, 35 percent; rail and water transportation, 57 percent; industrial uses, 225 percent; agriculture, 260 percent. In contrast, gasoline requirements for private motor cars are expected to be about 35 percent below pre-war. Notwithstanding the over-all increase, it is estimated that even in 1953 Europe's consumption of petroleum will be only about one-ninth of present consumption in the United States, on a per capita basis.

In order to obtain the oil required with the least possible payment in dollars and other foreign exchange, the participating countries are planning an extensive program to expand refining capacity both at home and in overseas oil producing areas. They are also engaged actively in steps to enlarge the production of crude oil in overseas areas, chiefly the Middle East, Caribbean and Far East. For example, the entire present long-range expansion program of British and Dutch oil companies in the United Kingdom and overseas is expected to result by the fiscal year 1953 in an increase in the value of crude oil and refined products output in the neighorhood of $1 billion a year.

Very few other industries will yield as high a rate of return per unit of investment both in dollars and in scarce resources as petroleum production and refining if the expansion is reasonably conceived and executed. The present long-range plans of the individual countries have not yet been reviewed by the OEEC and, therefore, are not coordinated. Such a review should undoubtedly result in a downward adjustment of the individual country programs.

The benefits from the early phases of the program already are beginning to become tangible. Marked changes are taking place in the composition of imports which, according to ECA estimates, will amount to about 48 million metric tons in the fiscal year 1949. In 1938, nearly two-thirds of all imports were refined products and only one-third crude oil. According to the ECA estimates, in the fiscal year 1950 a little more than half of the total petroleum imports will be crude oil. It is also expected that crude oil imports will continue to increase in importance during each successive year of the recovery program. At present prices, refining of crude oil in Europe makes possible a saving in foreign exchange equivalent to from 20 to 25 percent of the value of the refined products.

The present planned electric power program calls for the installation of 16.5 million kilowatts of new generating capacity by 1952. This, when added to the capacity in 1947 (43 million k.w.), will raise the total capacity to approximately 60 million k.w. The Electricity Committee of the OEEC, however, considers that this total might be inadequate and has drawn up a supplemental program to provide 4 to 5 million k.w. of additional capacity to come into operation in 1952/53. As a result of greater integration of production and distribution facilities, the annual output per unit of installed capacity should be appreciably increased over the present use factor.

During the present year the participating countries will make new installations double the new capacity installed in any pre-war year. Total capacity will be increased by 7.5 percent during 1948/49 and 8.5 during 1949/50.

On the one hand, this new capacity is dependent upon the uninterrupted flow of raw materials such as copper and lead from abroad; and on the other hand, the expansion of steel, mining, refining, transportation, and chemical industries cannot be carried out without a large increase in power supply.

Even though little new capacity has yet been installed, Western European crude-steel production will increase from 30.4 million metric tons in 1947 to an estimated 45.3 million metric tons in 1948/49, a level for general industrial usage slightly higher than pre-war. Western

Germany's production, however, will be approximately 6.2 million net tons in 1948/49 as compared with its pre-war average of 14 million tons.

By 1952/53, Western European production is expected to reach about 57.6 million metric tons through an expansion and modernization program in spite of the restriction limiting Western-German production to 10.7 million metric tons.

Although about 90 percent of the equipment for this program of expansion and modernization will be produced in Europe, the very heavy investment program, amounting to $3.1 billion during the recovery period, is an important part of the general investment program made possible by United States-financed imports of food and raw materials. Specialized equipment worth $400 million will come from the United States. The following table indicates the output of crude steel from Western European countries, and future targets based upon the full expansion program:

(In millions of metric tons)

	ERP countries excluding Bizone	Bizone	Total
1935-38 Average	29.4	14.6 (est.)	44.0
1946	24.2	2.5	26.7
1947	27.4	3.0	30.4
1948/49	39.1	6.2	45.3
1949/50	40.7	9.1	49.8
1952/53	46.9	10.7	57.6

In spite of the substantial recovery in crude steel output of the participating countries, there is still a serious shortage of steel in Europe. A portion of this shortage has been made up through exports from the United States, although the amounts of American steel which could be made available to Europe were severely limited by the shortage of supply. In certain varieties of steel, notably tubular goods and flat-rolled products, the United States shortage has proved a severely limiting factor upon the supplies which could be shipped abroad. This has adversely affected many European industries utilizing these products. The 1949/50 import program from the United States provides for delivery of 1.0 million tons or 3 percent of consumption. In 1948/49 the program was 1.1 million tons or 4 percent of consumption. Requirements are largely for tin plate and sheets for fabricating, the European capacity for which is particularly short. Current imports by the United States from Western Europe of ore, scrap and pig iron exceed the metal content of steel exports from the United States to that area.

The total consumption of finished steel in the participating countries is expected to reach 38.6 million tons in 1952/53 which compares with the pre-war average consumption of about 32.7 million tons, and is an increase of 15 percent. The total production of finished steel in 1952/53 is estimated at 44.3 million tons. This will leave a surplus available for export outside of Western Europe of approximately 6 million tons.

The European steel industry is a particularly promising field for international coordination. The proper integration of European steel production, on which work has been begun by the OEEC, should yield high results in eliminating redundant capacity and in reducing costs. A thorough study must be made by the OEEC which will look toward a balanced program for the production of ores, coke, and steel and which will minimize cross-hauling of these materials during the production cycle. The OEEC Steel Committee has suggested, with ECA concurrence, that the steel-expansion program be critically examined, and that the construction of some of the new capacity be deferred until after 1952 in order to spread the heavy burden of investment and to permit more time to see how steel requirements in Europe and the rest of the world will develop.

European production of non-ferrous metals has not been adequate since before the war to meet European demands. Imports of both the metals and the ores from overseas will be required to supplement indigenous production. There is at present a world shortage of non-ferrous ores and, as a consequence, it has been difficult for Europe to acquire adequate supplies quite apart from any exchange difficulties or shortage of means of payment. As a result, inadequate supplies of non-ferrous metals have been a serious bottleneck in the industrial recovery of Europe. To a considerable extent Western Europe's critical shortage of copper, zinc and lead is due also to the loss of the large pre-war imports of these metals from Yugoslavia.

There will continue to be serious difficulties over a period of several years in meeting the needs of Western Europe for non-ferrous metals. Some improvement may be effected, however, through use of substitute materials, continued allocation to essential uses, and development of sources both within Europe and in the overseas territories of the participating countries. In general, the participating countries plan to increase their consumption by 5 to 10 percent over 1948/49; it is the view of the ECA, however, that, as a result of the world shortage, the present level of consumption will remain substantially unchanged.

Although production in the participating countries and their overseas territories of non-ferrous ores other than lead ore will reach a higher level in 1949/50 than pre-war, it will provide for less than the internal needs in 1952/53.

The production of non-ferrous metals planned by the participating countries is as follows:

(In thousands of metric tons)

	1935/38	1949/50	1952/53
Copper	409	549	618
Tin	156	134	162
Lead	291	296	415
Zinc	531	547	755
Aluminum	186	263	391

The world shortage of ores may nevertheless limit the output of the European refining facilities, and production targets are not expected to be realized.

While further production gains are expected in the near future in the participating countries, major increases will not be achieved before

1952/53. There will then be appreciable increases in copper production in northern Rhodesia and in the Belgian Congo. The OEEC estimates that lead production in the participating countries and their overseas territories by 1952/53 should be about twice the estimated production for 1948. Western German mines are now operating at a small fraction of pre-war capacity, and the re-equipment of these mines, as well as others in Greece, Italy, and Austria, should be given the highest priority.

As a result of the very tight supply position in the United States, the ECA believes that in 1949/50 only a relatively small proportion of Europe's stated copper and zinc requirements can be supplied from the United States. It is not expected that any significant quantity of lead or aluminum will be available for shipment from the United States during this period.

War damage to railway roadbeds, tracks, and bridges has largely been restored. Tonnage now hauled is above 1938 levels. The number of freight cars and locomotives is only about 10 percent below pre-war, but in large part they are over-age equipment. Obsolete rolling stock is slowly being replaced by new production from European factories. Although the track network is considered adequate for 1952 needs, a major program of replacement of worn-out rails will be necessary to make up for deferred maintenance during the last ten years. This program will place heavy demands on production of steel and other metals as well as on fabricating capacity.

An investment program of $1 billion is planned for the further electrification of European railways. Although electrification will result in very considerable savings in coal, this program may, between now and 1952, tend to worsen rather than improve the balance-of-payments problem. The very large amounts of critically short copper and steel will have to be either purchased with hard currency or diverted from the manufacture of other machinery and equipment which could be exported.

Expansion of Europe's truck fleet by 1 million trucks is contemplated between now and 1952. The trucks will come almost exclusively from Europe's factories, but the program will require heavy imports of raw materials from overseas.

A major problem confronting Europe is the construction of new housing to replace or repair war-destroyed and damaged sub-standard units and to provide for the increase of population. Since 1914, new housing has continually fallen behind requirements for both replacement and expansion. In certain specialized areas, such as mining regions, immediate construction of new housing will contribute materially to the increased production of basic industrial materials. Except possibly in Italy, completion of any major housing program, however, must be deferred until after 1952, as the participating countries cannot support the very heavy industrial investment program now under way and at the same time support a major housing program. The principal concern of the OEEC in this field should be to see that an adequate industrial plant is created during the immediate future which will make possible the production of materials and equipment for a later housing program.

Eastern Europe, Sweden and Austria have been traditionally the chief source of supply for Western European lumber requirements. But the flow from these sources has been much reduced. To an appreciable extent, the forests of Western Germany are now being used to fill the gap caused by reduced Swedish and Austrian exports. Western Germany's forests, however, are inadequate to continue such exports over a long period. It is expected that imports from Finland this year will reach their pre-war levels, although total imports from other sources will be considerably less than pre-war. The 1948/49 program plans for the consumption of 21 billion board feet of lumber as compared with 25 billion before the war. By 1952, consumption is planned to increase again to 25 billion board feet. Western European production is now about 16 billion board feet and is expected to drop to 14 billion in 1952/53 mainly because it will be necessary to reduce cutting in Germany to a level more nearly approximating annual growth.

Before the war, 7 billion board feet were supplied to the West from Eastern Europe. In 1948/49, only 2.4 billion will be available from this area. In 1949/50, only 3.4 billion will be available from Eastern Europe and even this estimate may prove over-optimistic by a billion board feet. To make up a part of this deficit, it is estimated that North America could supply in 1949/50 as much as 3 billion board feet, although the effects on the balance of payments and the alternate uses of hard currency must be carefully weighed against the need for lumber.

Although the OEEC has of necessity devoted less attention to the manufacturing industries than it has to production of basic industrial materials, it is to this area of production that Europe must look for the solution of the major portion of its balance of payments problem.

Engineering industries (excluding ships, aircraft, and consumption goods) are expected to expand from an output of $9.8 billion in 1948/49 to $10.6 billion in 1949/50 and to $12.7 billion in 1952/53. Capital equipment production (excluding tractors, agricultural machinery and transportation equipment) is expected to expand from $5.5 billion in 1948/49 to $5.9 billion in 1949/50, and to $7.4 billion in 1952/53. To a very great extent, Europe must look to this sector of its economy as the spearhead of its exports drive. Success in this field, in turn, will depend both on quality and on price. Investment in industrial research and in the development of new machines of more efficient design should provide an extremely high rate of return in a relatively short period. Western Europe has a tremendous reservoir of skilled industrial workers, but in order to take advantage of this very great resource, these workmen must be put to work producing types and qualities of machinery which can successfully meet world competition and which keep in the forefront of technological advance. The expansion of the basic raw materials industries, such as coal, steel, and electric power, will be justified primarily by making possible the export of a high volume of machinery and equipment in which the ratio of the market cost to raw materials cost is highest and by which the most effective attack on the balance of payments can be made.

2. Agriculture.

Prior to World War II, the participating countries imported about one-third of the food they consumed. While their food-consumption standards varied considerably, the average pre-war energy intake was about 2800 calories per person per day, compared to the United States average of about 3100 calories. Some 48 percent of the total pre-war European intake was derived from bread and potatoes, compared to 30 percent in the United States.

During the post-war years, food consumption in Western Europe has been below pre-war in both quantity and quality, with a low point reached in 1947/48, following the disastrous crops of 1947. In 1948/49 Western European food consumption will be materially better than the very low levels of the previous year, because of greatly improved indigenous output and the maintenance of large imports of agricultural products. Depending on what domestic production actually turns out to be, food-consumption levels in 1949/50 may remain at the present level of between 2650 and 2700 calories per capita per day, or may slightly increase to somewhere between 2700 and 2750 calories. The goal at present envisioned for 1949/50 could of course be reached only if the proposed import program is realized and, especially, if indigenous production does not fall short of the hopeful forecasts.

Given production and imports as now foreseen, there should be a slight improvement in the composition of the diet. Consumption of livestock products, fats, and dairy products will still remain significantly below pre-war per capita levels, and there is no prospect of immediate improvement.

The ERP countries in their long term programs propose an over-all increase in agricultural production of approximately 15 percent above pre-war levels. For cereals, the proposed increase is about 15 percent; for potatoes and sugar beets over 30 percent; for oil seeds about 160 percent. These increases in crop production are to be attained mainly by increased yields. Only the United Kingdom and Turkey propose important increases in total crop area. Increased applications of commercial fertilizer will be a principal means of increasing yields, but improved varieties and cultural practices and increased mechanization will also contribute.

While significant increases in livestock production are proposed, they are smaller than those planned for crops. By 1953, the total number of cattle will be about 10 percent and the number of milk cows about 8 percent above the pre-war average. For pigs and poultry, the planned increases will be 9 and 12 percent respectively. Production of meat will increase 6 percent above pre-war, production of milk 11 percent, and production of eggs 13 percent. Combined production of vegetable and animal fats will be 15 percent above the pre-war average. Reflecting the plans for mechanization, a decrease of 10 percent in the number of farm horses is expected, thus releasing for other uses the feed required for these work animals. Partly as a result of this adjustment, the countries estimate that their goals for increased output of livestock products can be reached with a decrease of 11 percent in imports of coarse grains below pre-war levels.

The proposed over-all increase by 1952/53 in agricultural production as calculated by the participating countries would mean an increase over the favorable post-war year 1948/49 by more than 20 percent. This estimate is considered to be somewhat ambitious. There is no doubt that under the four-year program food production will increase substantially. It is not probable, however, that this increase will reach the planned proportions. A shortfall of production by 5 to 10 percent of the goals would require additional imports of food, at the end of the four-year period, of from 3 to 6 million tons of grain equivalent or from $300 to $600 million, as a minimum, at present prices.

Prior to the war, the ERP countries produced two-thirds of their total food requirements. By 1952/53, population is expected to increase approximately 12 percent above pre-war. Assuming achievement of the increase in over-all agricultural production envisaged by the ERP countries as the goal for 1952/53, a return to pre-war levels of consumption for the area as a whole would still require slightly higher net imports of foodstuffs and feedstuffs than before the war. There may be modifications in this prospect as far as import values are concerned, as a result of changes in the composition of imports from more expensive foods and feeds before the war to less expensive products. These modifications could not be great, however, since the main import need will continue to be for the same products: breadgrains, coarse grains, fats, and sugar.

The Western European program for 1949/50 envisions an increase in indigenous agricultural production over 1948/49 of approximately 5 percent. This estimate is probably even more ambitious than the 1952/53 estimates, assuming normal weather in both cases. With normal weather it would be a real gain if 1948 levels of crop production were repeated in 1949.

It is therefore considered more reasonable to assume that the output of total food energy in the participating countries in 1949/50 will be slightly less than in the favorable season 1948/49. On a value basis, total agricultural production is, however, likely to be somewhat above 1948/49 because of an increase in the output of livestock products.

Production of grain, potatoes, and sugar may not reach the favorable level of 1948. The substantially larger total supply of feedstuffs in 1948/49, compared with previous years, should make possible a larger domestic output of livestock products in 1949/50 provided the supply of feedstuffs can be maintained. The 1949/50 production of fats should also be above 1948/49, not only in animal fats but also in vegetable fats, because of an expected larger crop of olives.

The over-all physical volume of food imports by the participating countries contemplated for 1949/50 is about the same as that of 1948/49. There are, however, some changes in its composition.

In view of the improved world position for fats and oils, a modest increase in imports of this commodity by the participating countries is contemplated. Next to the shortage of meat, a shortage of fats and oils in Western Europe has been, in general, the most significant deficiency during the last 12 months. However, the decline in world prices of fats and oils suggests that these increased imports will be little, if any, more expensive than the smaller imports of the current year.

Some increase is contemplated in the intra-European trade in fresh fruits and vegetables which will tend to add variety and protective foods to the diet, and the possibility of a minor increase in imports of meat and dairy products from participating countries has been projected. These developments would mean a desirable redistribution of supplies within the area, although of very limited quantitative significance.

On the other hand, the proposed level of bread-grain imports in 1949/50 is slightly below the level for the current fiscal year. In view of the probability that, with average weather conditions, bread-grain production in the participating countries will be no larger in the next fiscal year than in 1948/49 and may be slightly smaller, total bread-grain supplies would be expected to be slightly less than those available during the current year. However, bread-grain stocks of participating countries at the beginning of 1949/50 should be appreciably more adequate than they were a year earlier, and there are possibilities of adjustment in extraction rates and the use of coarse grains for food. Therefore, unless bread-grain production or imports turn out to be substantially less than the program now contemplated, it should be possible to maintain roughly the current level of bread consumption. But in view of the narrow margin for contingencies, no further reduction in flour extraction rates, compared with those now in effect, is recommended.

The 1949/50 program also contemplates small decreases in imports of sugar, as compared with 1948/49, chiefly because sugar imports earlier in the 1948/49 season were relatively large as the result of an effort to offset the then current shortage of bread-grain supplies in some of the participating countries.

The program for 1949/50 contemplates a substantial increase in the imports of feed-grains and about the same level of imports of protein feeds. However, the cost of such imports is estimated to be very little higher than 1948/49 because of the lower world prices now in prospect. The increase in the imports of feed-grains is predicated upon the desirability of at least a moderate long-term recovery in the domestic output of livestock products, including animal fats. Whether the participating countries can support, after the end of the four-year program of American aid, the level of livestock production contemplated by their long-term programs is by no means certain. However, the level of livestock production which the projected level of feed-grain imports would support is well below the long-term target.

Most of the countries plan larger imports in 1949/50 of both cotton and wool and larger domestic production of rayon, not only to allow for higher exports of textile manufactures but also for somewhat larger consumption of textiles by the population within the participating countries.

Western Europe's textile industry—not greatly damaged by the war—needed little more than a supply of raw material to step up its operations rapidly. Because of this fact, because of the immediate need for the industry's products, and because it could begin to earn foreign exchange sooner than most other industries, the textile industry has staged an impressive revival almost everywhere.

Total mill consumption of raw cotton in the ERP area as a whole in 1949/50 is expected to rise by about 10 percent from its 1948/49 level but will remain somewhat below pre-war average.

Mill consumption of cotton from the United States, though sharply rising during the 1949/50 program period, is expected to drop thereafter from 780,000 metric tons (1949/50) or more than the 1935/38 average, to roughly 550,000 tons in 1952/53, or only about three-fourths of pre-war. This proposed reduction is due to programming by the ERP countries for a much larger proportion in later years of synthetic fibers in total fiber consumption and a larger proportion of fiber imports from other participating countries and their overseas territories.

The wool program for 1949/50 contemplates an increase in the industrial consumption of wool by about 7 per cent and an increase of imports by 5 percent, with a slight decline envisioned in Italy, France and Switzerland. Only about 10 percent of total wool imports will require dollar payment.

The tobacco import program for 1949/50 submitted by the participating countries to the OEEC has been incorporated without change into the ECA submission. In the aggregate, tobacco imports by the participating countries for 1949/50 are thus programmed to exceed the expected imports for the current fiscal year by about 2 percent. Shipments from the United States are projected at about the same level as for the current fiscal year.

The 1949/50 per capita consumption of tobacco (considering all of the countries as a group) contemplated by these imports would be slightly below pre-war. Total consumption, however, is likely to be as great or greater than pre-war in most countries except France, Germany, and Austria. Consumption per person is estimated at approximately 3.5 pounds for the participating countries compared with approximately 10 pounds for the United States.

After allowing for exports to non-participating countries, most of the remaining tobacco available for export from the participating countries and sterling areas has been programmed for import into other participating countries. It is possible, however, that these sources cannot supply the programmed tonnage without reducing their normal exports to non-participating countries, including the United States.

The consumption of commercial fertilizer in 1949/50 is expected to increase more than 10 percent above that in 1948/49. If realized, the program would thus attain a level of about 50 percent above the 1934-38 average. In 1945/46, fertilizer supplies in the participating areas approximated only 70 percent of pre-war supplies. By 1946/47, however, supplies had climbed back to pre-war levels. They increased to about 20 percent above pre-war in 1947/48 and in 1948/49 to more than one-third above pre-war.

Nitrogen consumption for 1949/50 is planned at 15 percent above 1948/49, and 58 percent above pre-war. Most of the nitrogen requirements are produced within the ERP area.

All of the major nitrogen-consuming areas indicate a consumption larger than during 1934-38. More than three times as much nitrogen as in the pre-war period is used in the United Kingdom where the plowland has increased to 45 percent above pre-war. France, The Netherlands, and Belgium-Luxemburg also show substantial gains over pre-war.

Although there may be an increase of up to 600,000 metric tons of chemical nitrogen for the ERP area in 1949/50 as compared to pre-war, it should be noted that the supply of plant food (particularly nitrogen) available in the form of animal manure will still be considerably less than pre-war due to reduced livestock numbers and lower feeding of concentrates.

Potash consumption in 1949/50 is expected to be about 10 percent above 1948/49 and 57 percent above pre-war. About one-fifth of the total potash requirements of the area come from outside—15 percent from Eastern Europe and over 5 percent from other non-participating countries. The Bizone, the largest consumer of potash, will still not have attained pre-war standards even with an increase in consumption in 1949/50 by 11 percent over 1948/49. France, already consuming about twice as much potash as before the war, indicates a further increase in consumption in 1949/50 of 12.5 percent over 1948/49. In the United Kingdom, where potash consumption is almost three times as much as in pre-war years, no further increase is indicated for 1949/50. The Netherlands, Belgium-Luxemburg, and Denmark, all well above pre-war in 1948/49, expect a continuation of that level of potash consumption in 1949/50.

Consumption of soluble phosphates is expected to increase by 10 percent above 1948/49. Reserves in the soil had been seriously depleted during the war years, and most of the largest users are already consuming substantially more than before the war, particularly the United Kingdom. Considerable additional increase in France is expected for 1949/50. The Bizone plans to exceed pre-war for the first time in 1949/50. Most of the soluble phosphates are produced from phosphate rock obtained from North Africa, and an increase in net imports of rock in 1949/50 of about 10 percent above 1948/49 is envisioned.

CHAPTER II

Economic Cooperation by Participating Countries

A. THE OEEC.

With the signing of the Convention for European Economic Cooperation on April 16, 1948, the sixteen nations associated in the Committee of European Economic Cooperation, together with representatives of the zones of occupation in Western Germany, took a major step towards implementing the pledge of cooperative effort embodied in their General Report of September 22, 1947—a pledge which was of fundamental importance to the United States in its decision to extend American aid to these participating nations. The Convention bound the participating nations to work in close economic cooperation, specified that their first cooperative effort should be directed to the "elaboration and execution of a joint recovery program", and set up the Organization for European Economic Cooperation (OEEC) as the continuing body within whose framework such cooperative efforts should be carried on.

Thus, at the same time that the Government of the United States established the Economic Cooperation Administration to carry out this country's part of the European Recovery Program, the participating countries themselves set up a specific international organization to guide and integrate their own cooperative efforts in attacking their common economic problems. At the end of the first nine months of the OEEC during which its organization had to be established, the work it has accomplished justifies the high hopes of its founders. At the same time, the member countries recognize that they are still on the threshold of European cooperation, and that the most difficult tasks have yet to be tackled with sustained and continuing common efforts.

The work of the OEEC has thus far been primarily focused on the formulation of joint economic programs, which the OEEC develops out of the individual national programs submitted by the participating countries. The aim is to achieve the most effective use of all resources available to the participating countries and thus reduce to a minimum the requirement for extraordinary outside assistance. It is within the functions of the OEEC to study and recommend action on a variety of large-scale economic problems, such as trade and payments among the participating countries, the coordination of national investment plans, joint developmental projects within Europe, customs and economic unions, and trade and fiscal policies.

The OEEC has devoted much effort in the past year to the immediate problem of recommending to the ECA a division of American assistance for 1948/49. But the analysis of Europe's economic problems and the formulation and undertaking of agreed measures of self-help and mutual aid to solve these problems are far more significant activities for Europe's economic prospects and future organization.

1. The Structure of the OEEC.

The structure and functions of the OEEC were established by the Convention for European Economic Cooperation. The organization is now composed of representatives of 16 nations and of the Bizone and French Zone of Germany and the U.S.—U.K. Zone of Trieste [1] and each nation is represented on the Council, which is the governing body of the organization and the body vested with power of decision. The Council acts on the principle of unanimity, although a member may refrain from voting and may approve a decision with stated reservations. The Council has met more than fifty times since April 1948.

The Executive Committee directs the day-to-day activities of the OEEC. This Committee is composed of seven members chosen by the Council, considers all matters to be referred to the Council and submits them with its recommendations, prepares the agenda for the Council meetings, and has been entrusted with an increasingly wide area of direct responsibility. It has, for example, directed the work on the long-term program covering the first year after the end of the European Recovery Program, including the approval of instructions for the preparation of national submissions, and the review of the program.

In addition to the Executive Committee, there are a number of Technical Committees. In the first place, there is a series of committees dealing with general problems: the Programs, Trade, Intra-European Payments and Manpower Committees and the Overseas Territories Working Group. Secondly, there are committees dealing with commodity or industry problems, in the fields of food and agriculture, iron and steel, coal, raw materials, textiles, machinery, and others. Each member is entitled to representation on these technical committees or to send a representative when a committee is considering a problem of interest to it.

The committee structure is flexible and adaptable to changing needs since no hard and fast procedures have been laid down. As presently organized, the working-level activity of the OEEC centers in this committee structure. These committees also work on the principle of unanimity but have authority to make only recommendations and not final decisions.

The other major segment of the organization—apart from the Council and the Executive Committee and the technical committees—is the internationally staffed Secretariat. The Secretary General assists the Council, the Executive Committee, and the various technical Committees in their tasks. The Secretariat analyzes the various economic problems that come before it and submits proposals for their handling or

[1] The full list of members is: Austria, Belgium, Denmark, France, the U.S.—U.K. Zone of the Free Territory of Trieste, Greece, Iceland, Ireland, Italy, Luxemburg, The Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and the occupied zones of Western Germany.

for their solution. In addition, the Secretariat provides the necessary technical and housekeeping services for the efficient administration of the business of the organization.

The relation between the Secretariat and the National Delegations is flexible. Sometimes the work is done by one or more national delegates, sometimes by a committee, sometimes by the Secretariat. The object is always to entrust the work to be done to those who can best do it.

2. The Functions of the OEEC.

The functions of the OEEC are summarized in the resolution of the Committee of European Economic Cooperation, dated April 16, 1948, which states that the organization is:

> "(1) to prepare as often as necessary, on the basis of and after examination of national estimates or programs, such general production, import and export programs as appear necessary to further the objects of the Convention;
>
> "(2) to consider, in the light of national estimates or programs of development submitted by the Contracting Parties, the best use of productive capacity and manpower to further the objects of the Convention within both their metropolitan and overseas territories, and the measures necessary to achieve these ends;
>
> "(3) to promote consultation between the countries concerned, to consider the measures and create the machinery necessary for European economic cooperation especially in matters of trade, international payments and movement of labor;
>
> "(4) to investigate, wherever necessary, methods of coordinating the purchasing policies of Members;
>
> "(5) to assist Members, at their request, to surmount difficulties incurred in the execution of the European Recovery Program;
>
> "(6) to make recommendations, as may be appropriate, to the United States Government and, as need be, to other Governments or International Organizations, on the allocation of commodities among the Members, having due regard to the allocating functions of other International Organizations;
>
> "(7) to ensure the most efficient use of external aid and to contribute towards ensuring the most efficient use of indigenous resources;
>
> "(8) to prepare as often as necessary reports on the execution of the European Recovery Program and the use of external aid;
>
> "(9) to collect all such information as may facilitate the accomplishment of the tasks of the Organization * * *"

The OEEC's terms of reference are wide enough to embrace any and all economic problems of European recovery. The organization has not, as yet, been able to give its full attention to many of the problems suggested in the above list of functions, though it has had to concern itself to some degree with most of them in its preparation of the first annual program. The analysis, review, and formulation of recommendations on long-term recovery problems will, however, compel it to consider very carefully a wide range of internal and external aspects of the economies of the participating countries.

B. PROGRAMMING.

Hitherto the preparation of one quarterly supply program and two annual programs has taken up most of the time of the OEEC. The preparation of these programs was requested of the OEEC by the ECA, and the OEEC had to develop its own techniques for this difficult and complicated task. But now that those techniques have been learned —even though there will have to be continual modification of them—it is probable that the preparation of further programs will take much less time. More time will thus be available to deal with the vital problems of European recovery.

In general OEEC programming is a cooperative effort to guide national policies so that the participating countries, as a coordinated group, will most effectively use their resources to achieve independence from extraordinary outside assistance. More specifically, the programming activity of the OEEC has consisted of obtaining forecasts of the maximum amount of industrial and agricultural production which might be expected in any period, the amount of labor, raw material, and capital equipment which would be needed to reach these output goals, and an estimate of the extent to which the necessary resources can be obtained from indigenous production or must be obtained from outside sources, together with recommendations for necessary action.

The development of a program has three main aspects. First, the OEEC defines the objectives which the particular program is to meet and the form and content of the forecasts which are to be made by the participating countries and submitted to the OEEC. The second is the preparation of such forecasts by the national governments, and the third is the analysis, reconciliation, and consolidation of these forecasts by the OEEC into an integrated joint recovery program. A vital part of this last stage, a part which the participating countries have not yet completed for the 1949/50 and long-term programs, involves the modification of national programs to minimize incompatibility and to provide for the most effective contribution by each nation to the common recovery objective.

Three types of programs have been undertaken during the past year: quarterly procurement programs, annual programs for the fiscal years 1948/49 and 1949/50, and a long-term or four-year program which will project the goals to be reached by mid-1952 in order to achieve freedom from extraordinary external support.

1. Quarterly Procurement Programs.

Because of the pressure of time and the need for maintaining an uninterrupted flow of essential commodities into Europe during the first months of the recovery programs, quarterly supply programs for the second and third calendar quarters of 1948 were prepared without the benefit of a completed annual program for 1948/49.

As its first programming assignment, the OEEC undertook the preparation of the supply program for the third calendar quarter of 1948.

It was soon recognized, however, by both the OEEC and the ECA that the former could not continue to prepare quarterly programs and also devote the necessary time and personnel to the drafting of annual and long-term programs and the solution of Western Europe's basic economic problems. Consequently, it was decided that the ECA, working directly with the governments of the participating nations, would prepare the quarterly procurement programs within the framework of agreed annual programs.

2. The First Annual Program, 1948/49.

Immediately after the completion of the July-September program, the OEEC took up the task of preparing an annual program for the year 1948/49. It was impossible to delay this work until a definitive long-term program, setting forth the goals to be attained before the middle of 1952, could be completed. Although both the OEEC and the ECA agreed that, logically, the long-term goals should be established as the basis from which the first annual program could be developed, pressure of time forced the adoption of the reverse order. For a number of reasons, including the preoccupation with urgent commodity requirements and the attempt to forecast in detail for a year in advance supply and demand for individual commodities, the initial emphasis was placed on detailed commodity projections. Later, emphasis was shifted to the measures which might be taken by each country and by the group to promote financial stability, to develop domestic production and improve labor productivity, to coordinate investment plans and other measures of self-help and mutual aid, and to consideration of the basic economic problems which affect the trade and financial relations of the European countries with each other and the rest of the world. Only through action of this kind can Europe achieve the most effective use of its own resources and a steady and rapid reduction of its requirements for outside assistance.

After receiving the national submissions for 1948/49, the OEEC examined and analyzed each program separately, trying to determine the requirements of each country for imports considered essential according to common criteria of recovery needs. In order to carry out this operation, a committee of four members was set up and empowered to review the programs and to make a provisional allotment of aid among the participating countries. These men were members of the National Delegations of France, the United Kingdom, the Netherlands, and Italy, and were the Chairmen or Vice Chairmen of the most important technical Committees. They were, however, appointed in their individual, not in their representative, capacities, and were charged with proposing through the Programs Committee to the Council a recommended division of American aid.

As guidance for the work of the Committee of Four, the Council laid down the following principles:

"(a) maintenance of food consumption at approximately the 1947 level, except where a higher level could be justified by exceptional difficulties or increased production and employment;

"(b) maintenance of imports of raw material at a level sufficient to prevent production and employment from being reduced, especially in connection with industries whose activity may directly or indirectly result in dollar saving or earning; widest possible recourse by participating countries to sources of supply outside the dollar area;

"(c) due attention to the volume of expected world market availabilities; and

"(d) adjustment of the import prices of basic products in accordance with the most up-to-date information."

Regarding capital equipment goods, the Council recommended that "the needs should be assessed according to the effect that such imports might have on production likely to result in dollar earnings or savings." Special attention was also to be given to relations between equipment requirements for 1948/49 and the over-all targets which might be set in the long-term program.

The OEEC suggested reductions in dollar requirements by recommending both the cutting of certain dollar imports and the shifting of other imports from the dollar area to European or other non-dollar sources. The problem of meeting the non-dollar deficit was solved in large part by the adoption of the convention on intra-European trade and payments. The background of this convention, together with the steps which were taken to solve it, are discussed in detail elsewhere in this document. After initial forecasts of intra-European trade and payments were reconciled, it was possible to determine each country's net requirements for assistance. Certain countries were in a position to provide assistance to other countries. The final recommendations on the division of aid, therefore, involved the determination of the amount of direct dollar aid which each country would receive from the United States and the assistance it would receive from, or extend to, other participants. As a result of this process, some modifications were made in both the earlier recommendations on dollar assistance and the forecasts of intra-European trade and payments. Final agreement in the Council was reached on October 16, 1948, and the entire program for 1948/49, including the recommended division of American aid, was transmitted to the ECA.

3. The Long-Term and Second Annual Programs.

Since August 1948, when the original instructions were sent out by the OEEC to the participating nations, and in particular since early November when the replies to the questionnaires were received, the long-term program covering the year 1952/53 has been the focus of OEEC activities. Again, advances have been made in the techniques of programming. The Council has delegated to the Executive Committee the direction of the preparatory work on the long-term program and the Executive Committee has interpreted this directive broadly. Functioning mainly as a working group, that is, relatively divested of national responsibility, it has undertaken the examination of the national program submissions, the preparation of reports on and analyses of these submissions, the discussion of the basic economic issues which have arisen in the course of the study, and the issuing of instructions to the technical committees engaged in commodity screening. The Secretariat has taken an increasingly active part in this process; and a Central Unit, consisting of the Chairman and Vice Chairman of the Executive Committee and the Secretary General, has been set up to operate as a steering committee.

Simultaneously, work on the second annual program for 1949/50 has been in process. The Programs Committee was put in immediate charge of this program, but the work on it has been conducted, throughout the OEEC, as an integral part of the long-range plan.

This approach to the long-term program is significant as an indication of the importance attached to it by the OEEC. It has resulted in a more centralized control over programming within the organization, and the development of programming technique has strengthened the OEEC. Not only is it more aware of the fundamental decisions which its member governments must take to achieve European recovery, but its increased prestige should facilitate action on the basic measures now required.

The procedure used in preparing the long-term program is to present an economic picture of the participating countries individually and as a group in the first year after the end of the European Recovery Program showing how the countries, individually and as a group, expect to attain satisfactory levels of production and living conditions, independent of extraordinary outside assistance. The preparation of such a program is by no means an easy task. The individual national program submissions of the governments to the OEEC are in many cases inconsistent with each other. This is to be expected at this stage of preliminary work. The inconsistencies and duplications appear in the anticipated types and quantities of exports and imports and consequently in the industrial and agricultural production, consumption, and investment targets on which these trade estimates are based. Equally important, the position of the participating countries as a group which is forecast in the 19 individual programs requires a reexamination of the anticipated levels and terms of trade between Western Europe and other important regions of the world.

To date, the OEEC's work on the long-term programs has consisted largely in analyzing the prospects of Western Europe in 1952/53 as it might be expected to emerge from the uncoordinated submissions of the participating governments, and in clarifying the issues which must be settled before a coordinated and realistic Western European program can be formulated. During the next several months the OEEC will endeavor to find solutions to these problems and will probably not complete its work on the long-term programs until sometime in the spring of 1949.

The second annual program, that is, the one for the fiscal year 1949/50, will also not be completed until the spring. The OEEC has obtained program submissions for 1949/50 from each of the participating countries but it does not plan to undertake the detailed revision and coordination of these programs until after the Congress has indicated what the maximum extent of American aid may be and until the work can be done with a clearer view of the needs of the long-term program for Western Europe.

The preparation of an integrated and consolidated long-term program is of greatest importance. If it is to be developed, basic decisions must be taken by member governments and basic questions must be faced with regard to the present structure of the European economy. The first stage in inducing governments to adopt the necessary policy decisions was reached when the OEEC requested its members to prepare detailed long-term programs for national recovery as the basis for discussions in Paris. As a result of preparing such programs, most of which were completed during November 1948, national governments have become more aware of the nature of their own individual problems and, as a consequence, it is not unreasonable to expect that far-reaching decisions will be made affecting national economic policies.

4. The General Effects of Programming.

In the post-war period in Europe, it has been difficult to remove all controls and restrictions on the flow of international trade and on the process of investments. As a result, the normal economic forces which determine prices, directions of trade, and rate of capital investment have not been fully operative. In their absence, economic decisions must be made through the process of cooperative action. Through the mechanism by which OEEC studies in detail the program submissions of each country, the members of the organization obtain accurate knowledge of the general lines of development envisaged by their neighbors. They also have an opportunity to see the points at which their own plans are in conflict with those of other countries. The magnitude and nature of the problems facing the European nations are, for the first time, being defined. Specific problem areas are being isolated for further study. This process of exchanging information in itself results in basic policy decisions by the Governments. The next step, which is yet to be taken, would involve the deliberate and conscious negotiation among the participants looking toward common agreement upon the further policies which must be adopted by each to insure compatible and complementary plans.

During the work of the OEEC in the last year there has been a strong tendency to try to define in statistical terms the bilateral relations of each member with the other participants. This has been particularly true in the negotiations leading to the intra-European payments plan, and there is a risk that the final reconciliation of the long-term programs may attempt to define too closely the bilateral trade patterns for each major commodity in intra-European trade. The OEEC recognizes the importance of avoiding undue crystallization of the individual trade patterns. If the plan were to attempt to define the amount of each country's production and the destination of each ton of its exports, there would be considerable danger that such rigid patterning would result in losing the advantages of competition as an incentive to efficiency in production and distribution.

5. The Relation Between OEEC and ECA Programs.

It is clear that the expenditure of ECA funds must be controlled and directed by the ECA. But it is equally clear that ECA funds must be spent in a manner which will make the maximum contribution to European recovery and protect the economy of the United States. Consequently, both the ECA program for American aid and the OEEC programs to make more effective use of Europe's own resources must be consistent with each other and the two organizations must be free to make recommendations and suggestions to each other.

The ECA studies the annual programs prepared by the OEEC and discusses possible modifications with the latter in the production, consumption, investment, and trade targets for Europe projected in these programs. The OEEC recommendations on the amount and division of American aid are carefully considered by the ECA and the advice of the OEEC is sought before important changes in the recommended figures are made by the ECA.

The OEEC annual programs are used as general guides by the ECA in the preparation of quarterly procurement programs for the expenditure of ECA funds. Where changes in supply conditions or other factors necessitate substantial deviations from the agreed annual programs, the OEEC is notified by ECA so that it may discuss the revisions required in its programs as a consequence.

To date, the ECA and the OEEC have worked in complete harmony and their programs have effectively complemented each other. There is every reason to expect that cooperation will be equally close in the future.

C. AGREEMENT FOR INTRA-EUROPEAN PAYMENTS.

One of the most significant results of cooperative action in the OEEC has been the development and operation of the Agreement for Intra-European Payments and Compensation. This plan was designed to prevent a stagnation of intra-European trade caused by payment difficulties. It constitutes the first step towards mutual aid among the participating countries and multilateral balancing of payments among themselves.

In the pre-war years, trade between the participating countries constituted between 40 and 50 percent of their total trade. Pre-war imports of participating countries from each other were almost four times as large as their purchases from the United States. With the striking increase in importance of the United States as a European supplier since the end of the war, American imports by the participating countries almost equalled their imports from European sources in 1947, but in the first half of 1948 imports by the participating countries from each other exceeded their imports from the United States by 50 percent.

In qualitative terms also, trade among the European countries is of considerable importance. This trade traditionally includes the flow to other participating countries of coal from the Ruhr and the United Kingdom, of steel from Belgium, of potash and iron ore from France, of woodpulp and iron ore from Sweden, of fruits and vegetables from Italy, as well as an active interchange of textiles, machinery, vehicles, and a wide range of specialized manufactures. If the overseas dependencies of European countries are included, the range of key commodities traded in the area is widened considerably and includes phosphates from French North Africa, copper from the Belgian Congo and Rhodesia, and the rich food and raw material resources of Malaya, French Indo-China and Indonesia.

The task of reviving mutual trade which confronted the European countries after the war was a difficult one. The conditions and mechanisms which gave rise to the pre-war trading patterns in Europe had been destroyed. Germany was largely eliminated as customer and source of supply. Price systems were distorted by subsidies, controls of varying efficiency, requisitioning by military authorities, and black markets. Currencies for the purposes of commercial dealings in volume were inconvertible; exchange rates were often artificial and at best untested. Reserves in gold and hard currency had to be husbanded carefully for the huge requirements of importers from the dollar area. Many countries were slow in returning foreign trade to private channels. Under these conditions it was only natural that European countries should have resorted to trade and payments agreements.

These agreements normally provided for exchanging certain specified categories of goods; for offsetting at an agreed rate of exchange the sums representing goods shipped in one direction against the value of those shipped in the other; and finally, to cover the inevitable lack of balance in this trade, for lines of credit to be granted by the central bank in each country to the other. As a practical matter trade and payments agreements of this character had to be negotiated and drawn up bilaterally. Such reciprocal credits eliminated the necessity for day-to-day balancing of accounts, and permitted the building up of substantial creditor and debtor positions over a period of time based upon ultimate settlement in gold or by other means.

In spite of the distortion of normal multilateral trade patterns, trade under these bilateral agreements did revive to a degree in 1946, but in the early part of 1947 definite strains in the bilateral payments arrangements became visible. Practically no progress in the expansion of intra-European trade was made in the course of 1947 beyond the level reached during the last quarter of 1946. This leveling off was due in part to the increased payments difficulties that were encountered throughout 1947. In many crucial payments relationships bilateral balance was not achieved and lines of credit became exhausted. At the same time, practically all European countries were more and more hard pressed for the financing of their purchases from the Western Hemisphere. The intra-European debtors were therefore increasingly unwilling to transfer gold or dollar balances in settlement of their debts. At the same time, the creditors became equally unwilling to extend new credits to the debtors, because of the poor prospects of eventual repayment and because of their concern over their domestic inflationary pressures. What had once seemed so desirable to most countries as to be termed a "favorable" balance of trade was now renamed "unrequited exports" and was considered as the worst of economic blunders.

To the extent that intra-European buying and selling was impeded by lack of the means of payment, European recovery was being retarded. It was important, therefore, that the financial obstacles standing in the way of a more efficient utilization of European productive facilities be removed or diminished. For a period of time, the ECA financed a portion of intra-European trade by allowing the participants to purchase with ECA dollars needed supplies from other participants. This method was regarded by the ECA as a temporary device to meet a pressing problem, since it was felt that it should not be necessary to finance intra-European trade with dollars.

Meanwhile in Paris the OEEC countries were devoting their attention to the creation of a plan which would not only maintain the volume of trade, but would provide a first step toward establishing convertibility of currencies. This plan was embodied in the Agreement on Intra-European Payments and Compensations signed by the participating countries on October 16, 1948. Under the plan, the participating countries estimate the surpluses and deficits of payments they expect to have with each other during a specified period, if their recovery plans are to go forward with maximum utilization of European resources. Once these estimates are agreed upon, the creditor country in each case commits itself to establish accounts in its own currency in favor of its debtor to the amount of the estimated deficit in payments. These accounts are called drawing rights and are made available as grants rather than lines of credit. For example, Belgium is able to export to France the equivalent of $40 million worth of goods and services in excess of the value of the goods and services which France is in a position to export to Belgium. France, not holding Belgian credits and not having adequate gold or dollar reserves, could not buy these needed additional goods and services from Belgium. Under the Payments Plan, however, Belgium agrees to grant to France drawing rights in Belgian francs up to the equivalent of $40 million.

The relating of these drawing rights to ECA dollar aid is the next step. Belgium, although it is a creditor of France, has a dollar deficit in its trade with the Western Hemisphere. How does Belgium acquire the necessary dollars to meet this deficit? The Payments Plan proposes the following solution: $40 million of the aid which Belgium is allotted by the ECA for the period in question is conditional upon Belgium's granting the drawing rights to France agreed upon. In other words, Belgium is required in effect to earn the $40 million by passing on an equivalent amount of aid to France in the form of goods and services paid for in Belgian francs. Belgium thus has $40 million available to finance necessary purchases from dollar areas and these dollars thereby perform a dual function without additional cost to the United States. Goods supplied by Belgium or any other participating country under this arrangement contribute to ERP objectives directly and effectively.

The above process is repeated 78 times—between each creditor and debtor. Countries which might have expected to receive the dollars from the ECA without undertaking certain obligations towards their

European neighbors agree under the OEEC plan that a certain portion of these dollars must be earned by the granting of locally-financed aid to certain other participants. The benefits of ECA dollar aid can no longer be entirely husbanded by its direct recipients but must be passed on in part to the other European countries, thus materially augmenting the total transfer of commodities, goods, and services under the ERP.

In conjunction with the adoption of this basic principle, the OEEC went one step further. It proposed that a mechanism be established through which a limited transferability of European currencies might be achieved. This device is called multilateral clearing and its operation is entrusted to the Bank for International Settlements, operating in this respect under a precise directive from the OEEC.

For example, in a given period of time it might be found that Italy is a debtor to the United Kingdom on its current payments with the United Kingdom to the extent of \$5 million while Italy is a creditor of \$5 million in its account with Belgium. The United Kingdom on the other hand, is a debtor with Belgium to the extent of \$10 million. By the process of multilateral clearing, Italy's credit with Belgium would be used in payment of Italy's debt to the United Kingdom, while the United Kingdom would use the credit thus received against Belgium to offset \$5 million of its debt to Belgium. This type of multilateral clearing may be conducted by the Bank for International Settlements without prior approval of each transaction by the countries involved. The beneficial results of such clearing can be readily perceived. An all-around reduction of debts has thus been accomplished, facilitating the extension of credits to finance further trade.

After the process just described has been carried as far as possible, there remains to be settled by the Bank for International Settlements as compensation agent a large volume of indebtedness outstanding between participating nations as a result of their trade with each other, and the agent then proceeds to make use of the drawing rights to the extent needed for this purpose. Under the present agreement only the Bank for International Settlements is authorized to utilize drawing rights to settle debts due from one ERP country to another. By means of these two mechanisms, multilateral clearing and utilization of drawing rights, obligations were discharged amounting in October to \$82 million, in November to \$67 million, and in December to \$80 million, which would otherwise have remained outstanding. If such indebtedness were allowed to accumulate it would again threaten to reduce European trade to a strictly bilateral basis.

This automatic type of multilateral clearing has not yet attained great significance because of the disequilibrium in trade and payments among the participants. Nevertheless, it is a significant first step toward convertibility of currencies in Europe. More complete convertibility of currencies of the participants must await the correction of excessive disequilibria in trade with other participants. This in turn requires the suppression of inflation and a price structure which will facilitate trade. In the meantime, the Payments Plan is designed to make possible the maximum possible volume of intra-European trade despite the serious disequilibria still existing in Europe. In addition, the OEEC has adopted a series of commercial policy principles which it has recommended to the participating nations. The principles, if followed, are designed to assist the countries to achieve the necessary trade balance.

It is hoped to move progressively towards the objectives of convertibility of currencies and maximum practicable freedom of trade. The extent to which such progress will be possible depends upon the economic and financial measures taken by the participating countries. The Payments Plan in its present form leaves much to be desired as an instrument in bringing about trade equilibrium in Western Europe and a greater convertibility of currencies. The OEEC is continuing its studies concerning the relationship of the present plan to these objectives. However, the present plan represents a step towards these goals. It serves the immediate needs of preventing a reversion to the type of bilateralism in trade and payments among the participants which existed immediately after the war and encourages a greater utilization of European resources in the interest of recovery.

D. FUTURE TYPES OF OEEC ACTIVITIES.

In the past year, the OEEC has concentrated upon production and distribution programs and on problems of intra-European payments. It has been unable, because of the pressure of work, to devote sufficient attention to problems of furthering the adoption of sound monetary and budgetary policies by the participating countries. Control of inflation should be a major subject for consideration by the organization during its next year of operation. Work also needs to be done looking toward the establishment of currency convertibility within the participating-country area at the earliest possible date.

Work is already well under way in studying what has been termed the very root of the problem of commercial disequilibrium, the principles of commercial policy which must be adopted in order to permit the establishment of a system of stable trade relations and to facilitate the purchase of those commodities most necessary for recovery. The elimination of obstacles to the free flow of trade will occupy the attention of the OEEC to an increasing extent, especially as problems of production are solved and the physical availability of commodities increases.

As the OEEC shifts its attention from the problem of urgent commodity needs to the more fundamental aspects of recovery, it becomes increasingly evident that effective action must be based upon a more complete knowledge of the dynamic structures of the several European economies. With the active support of the ECA, the OEEC has been turning its attention to an exploration of possible methods of evaluating the current status and declared goals of participating countries in terms of the sources and application of national revenue and savings. This orientation toward national-accounts studies has been particularly evident in the emphasis upon the relationship between investment plans and the levels of national income in examining the long-term programs.

Although faced with many serious deficiencies in the national statistics available, the OEEC will endeavor to make the fullest possible use of the national accounts studies which are currently in progress in certain of the participating countries and will encourage further work along similar lines by other participants, both as an aid to the planning of national policies and as the basis for judging national programs. It is recognized, however, that adequate and comparable information is not likely to be available for some time to come which provide any meaningful comparisons between one country and another.

As the long-term programs for the recovery of the various countries move from the planning and discussion stage into actual operation, the OEEC will devote increasing attention to the development of a suitable mechanism for comparing the results achieved with the standards of recovery progress implicit in the goals defined by the programs. While in the early stages the major emphasis has been upon the preparation and revision of plans for future action, the coming years will call for increasing emphasis upon reporting of action taken and measurement of accomplishment, both as the basis for future actions and in order to insure that programs are actually being carried out in accordance with the announced intentions of the participating countries to the best of their abilities.

Another field, which has thus far received inadequate attention, is the development by each country of a competent group of technicians to work on product design, production techniques, and marketing surveys. Some of this work might be coordinated by the OEEC. Europe must live by its export of manufactures. It can only do this if these manufactures can meet competition in world markets in prices, quality, and design, and in packaging and sales technique. Above all, costs must be reduced through efficient organization of production.

The effectiveness of any free system depends to a great extent upon the confidence and support which people living under the system accord to its institutions and to the national government. Here the OEEC can make an effective contribution in the future in helping each government to encourage the participation of its citizens in the formulation of national recovery policies and to acquaint them with the nature of the problems involved in working toward European recovery. The common objectives of both the United States and the participating countries will be served through encouraging a fuller and clearer understanding of the part which the United States is playing in European recovery and its motives for so doing.

CHAPTER III

ECA Financing Operations

The Economic Cooperation Administration is primarily a financing agency. It does not undertake any procurement itself either on its own account or as an agent of the participating countries. Its activity consists of making funds available to the participating countries with which they can, largely through private trade channels, purchase the goods and services which they require.

In the first days of the European Recovery Program, the maintenance of an adequate flow of essential commodities and services to Europe took priority over the task of developing the best ECA procedures for authorizing procurement by participating countries. In the face of a pressing need to expedite the shipment of commodities vitally needed for European recovery, no approved program was yet available to furnish the basic pattern for ECA assistance. Therefore, to fulfill the immediate objective of furnishing an uninterrupted supply of goods to the participating countries, it was necessary for the ECA to authorize the financing of commodities or services after, rather than before, their procurement had been initiated by participating countries.

In the first two quarters of ECA operations, approximately half of the issued procurement authorizations (that is, the written authority issued by the ECA for designated procurement) originated in requests by a participating country for the financing of specific commodities or services which the country had already undertaken to purchase and which were, in many cases, already delivered to the country. The typical procurement authorization covered an individual transaction and contained such details as itemized specifications of the commodities or services, a unit and total price therefor, and the period of delivery.

This interim procedure, involving, in many cases, financing of completed transactions after the fact, did not provide adequate advance control and supervision by the ECA of the procurement of commodities and services by participating countries. Moreover, the procedure of gearing ECA operations to individual transactions was found to be needlessly cumbersome and detailed. In July 1948, the ECA began an exhaustive review of programming and procurement authorization procedures. The result was the introduction, beginning with the fourth calendar quarter of 1948, of ECA procedures for quarterly programming on a forward basis.

The revised mode of operation provides for the allotment to the participating countries of ECA funds well in advance of the quarter during which commodities to be procured with such funds will be delivered. This enables the ECA to maintain closer supervision of the general composition of a participating country's program and to channel procurement efficiently in accordance with basic ECA policies. The new plan calls for the issuance of procurement authorizations which in general cover a quarterly program for a broad commodity grouping instead of referring to and authorizing specific transactions. The issuance of procurement authorizations in broader terms, with the concomitant placing of responsibility on the participating countries for making narrow sub-authorizations to their importers, facilitates a wider use, both in Europe and the United States, of private channels of trade and results in reduced interference with the normal documentation pattern of export-import trade. Another feature of the new procedure is the incorporation of reporting and accounting requirements designed for more effective control by the participating countries and the ECA over the procurement of commodities and services.

The first quarter of operations under the revised procedure was a transitional period, with some remnants of the old methods remaining. In the first calendar quarter of 1949, however, the plan is in full operation except that it has not yet been possible fully to meet the time schedule for issuance of allotments and procurement authorizations contemplated under the revised procedure.

A. SUMMARY OF THE PROCUREMENT AUTHORIZATION PROCEDURE.

Four months before the beginning of a calendar quarter the ECA reviews all available program material relating to the current status of the OEEC annual programs, including the latest studies made by ECA-Washington, the OSR, and the ECA country missions. On the basis of such review, the ECA establishes for each participating country a dollar allotment (issued to the country on Form ECA-201) to finance purchases of commodities and services to be delivered in the quarter. These quarterly allotments are installments on the annual allotments for the fiscal year as recommended by the OEEC and approved by the ECA. Proportionately smaller dollar allotments are simultaneously made to cover deliveries during the two or three succeeding calendar quarters, such allotments being designed to cover the cost of so-called "long-lead" items, such as heavy capital equipment, which must be ordered far in advance of delivery dates.

Within one month after the issuance of the dollar allotments (three months before the beginning of the quarter), each participating country submits (on Form ECA-202) to the ECA in Washington and to the ECA mission in the participating country an application for procurement authorizations to cover the commodities and services which it desires to have financed with its dollar allotments. Such applications are in terms of approximately 80 basic commodity code descriptions listed on the Form ECA-202, corresponding with those contained in the ECA Commodity Code Book. Typical codes, which give some indication of the breadth of the groupings, are bread grains, dairy products, tobacco and tobacco products, hides and skins, generators and motors, machine tools. In addition to the basic Form ECA-202, each participating country also files Form ECA-202A, which gives a breakdown in metric tons, for each area of source, of a limited number of given commodity groups, and Form ECA-202B, which contains more detailed area-of-source breakdowns for procurement from countries other than participating countries, the United States, Canada, and Newfoundland.

After receipt of the Forms ECA-202 from the participating countries and of recommendations from the ECA country missions, ECA commodity branches, in consultation with the Program Coordination Division, determine the dollar amount of each commodity to be authorized, based on an analysis of needs, availabilities, and other pertinent considerations. Sixty days before the beginning of the quarter, the ECA issues procurement authorizations (on Forms ECA-203). Each procurement authorization specifies a dollar amount authorized for the purchase of commodities or services within a designated ECA commodity code during a specified quarter from a specified area of source. In addition, a procurement authorization may contain special terms or conditions under which the authorization is issued (for example, the procurement may be limited to certain grades or types of commodities within the broad commodity code) and may also set forth additional documentation requirements, supplementing the normal documentation required for reimbursement by the ECA.

On receipt of the procurement authorizations, the participating country indicates acceptance by signing and returning one copy to the ECA. The country then makes sub-authorizations to its importers. Recognizing that the methods for authorizing imports, in terms of both timing and complexity of import license requirements, vary greatly from country to country, the ECA gives the participating country considerable latitude in the procedures to be followed in making sub-authorizations to its importers.

A basic requirement imposed by the ECA is that the country pass on to the importer the number of the procurement authorization against which the sub-authorization is made, and any additional information necessary to insure that the purchase conforms with all applicable terms and provisions of the procurement authorization. The procurement authorization number, which must be placed on all documents relating to the purchase, serves to identify the transaction as being ECA-financed under a particular procurement authorization. After sub-authorizations are made, the transactions move to the maximum extent practicable through normal commercial trade channels, although in some cases an agency of the participating country rather than a private importer may be authorized to do the procuring. In the case of a few commodities, such as certain agricultural products purchased through the Commodity Credit Corporation, procurement is made through United States Government agencies, in which event the ECA issues purchase authorizations and makes funds available directly to the procuring United States Government agency.

Each participating country is required to submit to the ECA a monthly report (on Form ECA-204) showing the extent to which sub-authorizations have been made against procurement authorizations. Such reports enable both the ECA and the participating country to keep currently informed of the progress of procurement under each quarterly program.

If a participating country wishes to request a modification in an outstanding procurement authorization, such as the transfer of funds from one commodity to another or a change in the designated delivery quarter, it may submit to the ECA a Procurement Authorization Change Request (Form ECA-205). If such request is justified, the ECA will make necessary amendments in procurement authorizations. If the ECA's continuing review of general requirements and availabilities shows that modifications in procurement authorizations are desirable, it will make such modifications on its own initiative.

B. METHODS OF FINANCING.

Purchases under procurement authorizations, other than those in which a United States Government agency serves as the procuring agency, may be financed by reimbursement, by a letter of commitment, or by drafts drawn by the participating country on the ECA. In the case of reimbursement directly to a participating country, the country finances the transaction initially with its own dollars and is later reimbursed by the ECA for the amount of the expenditures. Under another method of financing, a letter of commitment is issued by the ECA to a banking institution in the United States or directly to a supplier of commodities or services. A recently introduced method of financing allows the participating country to draw drafts on the ECA against accounts established on the books of the Treasury Department.

The ECA requires under each of the above methods of financing, substantially the same documentation to support its expenditure of funds. The documentation normally required consists of a certified standard U. S. Government voucher; a certificate that copies of contracts or other documentation constituting the entire purchase agreement for the transaction have been submitted directly to the ECA in Washington; a detailed invoice bearing proof of payment to the supplier; an ocean bill of lading or other satisfactory evidence of proper shipment; and a certificate by the supplier relating to the price of the commodities and other vital aspects of the transaction. Procurement authorizations for certain types of goods, especially many agricultural commodities, may contain additional documentation requirements, such as independent certificates of weight and analysis and certified proof of country of origin.

1. Reimbursement.

In procurement financed by reimbursement to the participating country for initial outlay of its own dollars, the country originally makes the dollars available to its importer, who in turn pays the supplier by one of the methods commonly used in regular commercial transactions, for example, a letter of credit or sight draft. The foreign importer is instructed to secure the necessary documentation from the supplier for his government, which then prepares the standard United States Government voucher and submits the full documentation to ECA-Washington for payment.

2. Letter of Commitment to a Banking Institution.

In financing procurement by means of a letter of commitment to a United States banking institution, a participating country requests the ECA to issue such a letter to a United States bank selected by the country. The letter of commitment which is issued under and within the terms of a designated procurement authorization, represents an undertaking by the ECA to reimburse the bank for payments by it, in accordance with instructions issued by the participating country, for commodities or services furnished in accordance with the terms stated in the letter of commitment and the applicable procurement authorization. Upon direction of the participating country or its agents, the bank issues and makes payment against letters of credit or otherwise makes payment to suppliers against the documentation required by the ECA. The bank is reimbursed by the ECA for such payments upon submission of the required documentation to the ECA.

3. Letter of Commitment to a Supplier.

The letter of commitment to a supplier is, as its name indicates, issued directly to the supplier of the commodities or services to be financed by the ECA. It is used mainly to finance purchases of industrial equipment and is especially useful in transactions involving the making of progress payments. Payments under a letter of commitment to a supplier are made directly to the supplier upon submission of the required documentation to the ECA.

4. Drafts on the ECA.

In mid-January the ECA instituted still another method of financing procurement. Like the letter of commitment, this method enables a participating country to procure commodities and services without use of its own United States dollars. It introduces the use of a revolving fund account which the ECA establishes for the country on the books of the Treasury Department. The country is allowed to draw drafts on the ECA against such account in order to make payment to suppliers. To obtain payment under a draft so drawn, the supplier must sign an indorsement containing all significant provisions of the supplier's certificate normally required for ECA transactions, and the participating country must furnish all other documentation ordinarily required for reimbursement within three months after drawing the draft. The procedure, which was evolved by the ECA in close collaboration with the Treasury Department and the Federal Reserve Bank of New York, will facilitate financing pending the receipt of complete documentation.

5. Procurement by United States Government Agencies.

When procurement of ECA commodities or services is to be made by a United States Government agency, the ECA advances funds to the procuring agency to cover the cost of the authorized procurement. The ECA receives reports of completed transactions. The documentation for the transaction is customarily the same as that obtained by the agency for non-ECA procurement and is retained by the procuring agency for accounting to the General Accounting Office.

C. EXPENDITURE CONTROLS.

Under the interim procurement authorization procedure utilized in early ECA operations, the procurement authorization normally specified the method of financing to be used for the procurement. This was possible since the procurement authorization was tied to individual transactions, which were usually sufficiently developed at the time of the issuance of the procurement authorization so that the desired method of financing was known. Under the present ECA mode of operation, which involves the issuance of procurement authorizations covering quarterly programs for broad commodity groups, the method of financing is not specified in the procurement authorization.

As an adjunct to the broader type of procurement authorization, the ECA has developed procedures for recording and controlling methods of financing which enable a participating country to use any or all of the various methods of ECA financing under a single procurement authorization. Upon the issuance of each procurement authorization, a credit is established in the ECA Controller's Office against which are charged the disbursements made by the ECA directly to a participating country for transactions initially financed with non-ECA dollars; the total dollar amount of letters of commitment issued to banks or suppliers under the procurement authorization; and any allocation made to United States Government agencies for procurement under the procurement authorization. When the total liability for payments under any or all of the methods of financing equals the amount of the procurement authorization, ECA makes no additional disbursements except against already issued letters of commitment or against other obligations already charged to the procurement authorization total.

Disbursements by the ECA under any of the methods of financing are made on the basis of a limited audit of the required documentation. This policy is followed so that normal commercial relationships are not slowed by the period required for a detailed and searching audit. ECA interests are protected by the fact that all payments under procurement authorizations are subject to the requirement that the participating country repay promptly to the ECA upon demand any amount disbursed whenever the ECA determines that the documentation submitted is inadequate or that the payment made was improper for any other reason, such as non-compliance with the price limitations or other provisions of the ECA legislation or regulations. The ECA can thus make prompt initial payment and later, after a complete post-audit, require repayment of any disbursement determined to have been improperly made.

The detailed post-audit includes close checking of the required documentation with the procurement authorization under which the transaction was financed, comparing the description of the commodity, amounts, and value. The invoice price and commodity descriptions must be in accord with the contract or purchase order. The proof of payment must be adequate and the bill of lading must cover the designated quantity and show delivery to a proper port. Similarly, the supplier's certificate and standard United States Government voucher are examined for completeness and proper execution. A check is also made to insure compliance with any special provisions or limitations to which the transactions were subjected by the terms of the procurement authorization. To date post-auditing has revealed few material defects, and these have been satisfied for the most part by requesting and receiving additional or corrected documentation.

D. FUNDS.

For the first 12 months of ECA operations (April 1948 through March 1949), $5 billion was made available directly by the Congress and $10 million was carried forward from the Interim Aid Program (Public Law 389). For the second calendar quarter of 1949, an additional $1.15 billion is required to complete the aid program for the fiscal year 1948/49 and for non-program expenses. For the fiscal year 1949/50, $4.2 billion of program funds and $80 million of non-program funds are requested as shown in Table 1. In addition, the ECA is requesting authorization to obligate $150 million to finance the purchase of capital goods and other long production items which will not be transferred to the participating countries until the fiscal year 1951.

TABLE 1. ECA FUNDS

(In millions of dollars)

	April 1948-March 1949 (actual)	April 1949-June 1949 (proposed)	July 1949-June 1950 (proposed)
Program funds	4,953.0	1,138.5	4,200.0
Strategic materials	2.6	2.0	32.0
Ocean freight on relief packages	11.5	4.0	15.0
Technical assistance	3.0	2.0	15.0
Investment guaranties	27.7	—	—
Administration	12.0	3.5 [a]	17.5
Confidential fund	0.2	—	0.5
TOTAL	5,010.0	1,150.0	4,280.0

[a] Actual administrative expenses for this quarter are estimated at $4.5 million. The difference will be met from funds previously appropriated for this purpose.

E. ALLOTMENTS.

Although the making of a quarterly allotment to a participating country by the ECA does not constitute a commitment of ECA funds, it has great importance in the programming work of the agency and of the participating countries. It is the sum of money which governs the value of the procurement authorizations which will be issued to a participating country each quarter. The early determination of both the fiscal year aid allotments and the quarterly allotments permits each country to develop and carry out, with the approval of the ECA, a consistent and steady procurement program and to maintain through the year a level of imports which will not exceed available financial resources.

To date, allotments have been made to permit the issuance of procurement authorizations by the ECA and the commitment of funds by participants in the second, third and fourth calendar quarters of 1948 and in the first calendar quarter of 1949. These allotments have now reached a total equal to the available program funds. With the exception of the second calendar quarter allotments of 1948 (which were divided into only two categories: loan and grant), allotments have been divided into three categories: loan, grant and conditional aid.

Tables 2 and 3 show the division by countries and by loans, direct grants and conditional aid of the allotments made for the second calendar quarter of 1948, the allotments already made in the fiscal year 1949, and the remaining allotments to be made to complete the current fiscal year subject to the appropriation of the necessary funds by the Congress.

The total allotments for each country proposed for the fiscal year 1949, as shown in Table 3, are lower than the ones originally recommended by the OEEC. The reductions made by the ECA are minor in magnitude and largely technical in nature. The more important of these are explained in Chapter I above.

TABLE 2. ALLOTMENTS FOR APRIL-JUNE 1948

(In millions of dollars)

Country	Total allotment (1)	Loan (2)	Direct grant (3)
Austria	62.0		62.0
Belgium-Luxemburg and Belgian dependent overseas territories	20.0	17.0	3.0
Denmark	20.0	10.0	10.0
Free Territory of Trieste	4.0		4.0
France and dependent overseas territories	335.0	75.0	260.0
Germany: Bizone [a]	109.0		109.0 [a]
French Zone [a]	20.0		20.0 [a]
Greece	50.0		50.0
Iceland	2.3	2.3	
Ireland	10.0	10.0	
Italy	158.0	25.0	133.0
Netherlands and dependent overseas territories	115.0	27.5	87.5
Norway	20.0	15.0	5.0
Sweden			
Turkey	10.0	10.0	
United Kingdom	400.0	100.0	300.0
Total	1,335.3	291.8	1,043.5

[a] Direct aid to Western Germany remains a charge against Germany, subject to eventual settlement, and is, therefore, not necessarily a direct grant.

TABLE 3. ALLOTMENTS FOR 1948/49

(In millions of dollars)

	Proposed Gross Allotment Fiscal 1948/49 (1)	Allotments to date, July 1948-March 1949				Proposed April-June 1949 Allotment (6)
		Total Allotment (2)	Loan (3)	Direct Grant (4)	Conditional Aid (5)	
Austria	215.2	158.8		154.4	4.4	56.4
Belgium-Luxemburg and Belgian dependent overseas territories	247.9	196.0	40.4		155.6	51.9
Denmark	109.1	80.0	21.0	55.2	3.8	29.1
Free Territory of Trieste	17.8	14.2		14.2		3.6
France and dependent overseas territories	980.9	723.5	97.0	619.2	7.3	257.4
Germany: Bizone [a]	410.6	307.1		225.5 [a]	81.6	103.5
French Zone [a]	99.2	72.3		61.2 [a]	11.1	26.9
Greece	144.8	122.0		122.0		22.8
Iceland [b]	5.2	5.2	[c]		5.2	
Ireland	78.3	78.3	78.3			
Italy	555.5	422.7	42.0	345.3	35.4	132.8
Netherlands and dependent overseas territories	469.6	368.0	119.2	240.3	8.5	101.6
Norway	83.3	61.8	20.0	29.4	12.4	21.5
Sweden	46.6	40.4	21.6		18.8	6.2
Turkey [b]	39.7	34.8	28.0		6.8	4.9
United Kingdom	1,239.0	919.1	213.0	473.8	232.3	319.9
Commodity Reserve	13.5	13.5		13.5		
TOTAL	4,756.2	3,617.7	680.5	2,354.0	583.2	1,138.5

[a] Direct aid to Western Germany remains a charge against Germany, subject to eventual settlement, and is, therefore, not necessarily a direct grant.
[b] Loan-grant amounts are subject to change after consultation with the National Advisory Council.
[c] In addition, a loan of $4.5 million is under discussion with Iceland.

F. LOANS AND GUARANTIES.

The Congress provided $1 billion for the purpose of making loans and investment guaranties. Of this amount $27.7 million has been set aside for investment guaranties and the balance of $972.3 million is being allocated to the Export-Import Bank, after consultation with the National Advisory Council, as the ECA completes its loan negotiations with the participating countries. Loans have been made and loan agreements signed with all participants receiving aid excepting Austria, the Western Zones of Germany, Greece and Trieste.

After consultation with the National Advisory Council, the following terms and conditions were established applicable to these credits:

(1) Maturity of Loan—Up to 35 years from December 31, 1948.

(2) Interest Rate of 2.5 percent.

(3) No interest to be charged for the period through June 30, 1952; no amortization of principal for a minimum period through June 30, 1952, and a maximum period through June 30, 1956.

(4) The inclusion in the loan agreement of a clause permitting postponement of payments of interest or principal with the agreement of both parties.

The dollar value of applications for investment guaranties approved or pending has been only $10 million (industrial projects about $6 million; informational media about $4 million). The primary reason for the low volume of applications appears to be the uncertain conditions in Western Europe, which are not attractive to new dollar investments even with a guaranty of convertibility. A secondary factor affecting the magnitude of applications to date is the relatively short period since the inauguration of the investment guaranty program.

G. CONDITIONAL AID.

Conditional aid consists of ECA grant funds advanced to participants on condition that they advance equivalent aid in their own currencies to other participants. According to the Agreement for Intra-European Payments and Compensations of October 1948, participants finance bilateral imbalances of trade by the establishment of drawing rights in European currencies by each creditor in favor of each debtor in each bilateral relationship. ECA aid is conditioned on the actual extension of such drawing rights. In three cases (Belgium, Sweden and Turkey), conditional aid is equivalent only to the net drawing rights extended, i.e. gross drawing rights extended minus gross drawing rights received. In three other cases, the ECA extends no conditional aid: Ireland, a member of the Sterling Area, handles its monetary relationships with other European countries through London; Greece is exclusively a recipient of drawing rights; Trieste, forming part of the lira area, has arrangements with Italy for financing its European currency needs.

H. DIRECT GRANTS.

Direct grants have been made to all countries requiring dollar aid additional to, or instead of, loans and conditional aid—that is to all participating countries except Iceland, Ireland, Sweden, and Turkey. Belgium received a small direct grant only for the second calendar quarter of 1948 and no direct grants in 1948/49. In the case of Western Germany, the terms of aid will be determined by the peace settlement at a later date.

I. PROPOSED LOAN POLICY FOR 1949/50.

In the illustrative aid figures shown in Chapter I for 1949/50, no amount of loans has been specified either in total or by countries. The ECA does not believe that loans should be made next year in as large amounts as during its first twelve months of operations. The European countries have already accumulated a substantial indebtedness to the United States as a result of the war settlements and the post-war credits which the United States has extended, in addition to the loans under the first year of the ERP. In 1948/49, it is estimated that interest and amortization payments to the United States Government and on other dollar obligations will absorb about one-eighth of all of the dollar earnings of the participating countries; during 1949/50, such payments will amount to nearly $230 million. It is becoming increasingly evident that a further large charge upon their future dollar receipts would in all likelihood be a deterrent to the achievement of the objectives of the recovery program. International lending agencies and private investors will scrutinize with particular concern the imposition of further claims against European dollar earnings by the United States Government and may well become reluctant to lend if interest and amortization payments to the United States Government continue to grow. Moreover, the growth in these charges leaves a smaller and smaller margin of flexibility in the international accounts of the debtor countries. Fluctuations in their dollar earnings, therefore, require disproportionate adjustments in vital merchandise imports because the capital repayment items are fixed. The problem is not dissimilar to that of a business enterprise with heavy fixed capital charges in a period of fluctuating and uncertain receipts.

Certainly the fundamental objectives of the European Recovery Program would not be furthered by the emergence of a situation in which payments to the United States on loans extended during the recovery program necessitated reductions in the levels of consumption or investment which had been obtained through United States assistance in the course of the four-year program.

The risk of an excessive debt burden must be given serious consideration. This does not mean that ECA should not continue to make loans to some participating countries, but the addition of a further large dollar debt to Western Europe's present dollar charges might absorb so much of its capacity to borrow as to throw serious obstacles in the path of private American investment in Western Europe at the end of the program, when such investment should play a strategic role.

J. COMMITMENTS.

In the second calendar quarter of 1948 procurement authorizations issued totalled only $738.5 million; in the third quarter $1,191.8 million (including post-facto authorizations for the second quarter); and in the fourth quarter $2,114.5 million (including post-facto authorizations for the second and third quarters). Authorizations issued in the nine-month period April through December 1948 thus totalled $4,044.8 million. In January 1949, $249 million of procurement authorizations were issued. During the last two months of the first quarter of 1949, it is estimated that the remaining $659 million of the available programming funds of $4,953 million will be authorized, except for that minimum which is carried forward from one business day to the next in the ECA authorizing procedures for making minor amendments to outstanding procurement authorizations. A proposal for a legislative amendment has been submitted to the Congress to assure that such operating carry-overs are not unjustifiably lost to the participating countries after the close of an appropriation period.

Of the procurement authorized in 1948, $3,707 million was provided to the European countries for the purchase of commodities, $337 million for the costs of ocean freight and $1.2 million for technical services. Procurement authorized in the United States totalled $2,299 million —almost two-thirds of all commodity purchases authorized in the year 1948. Canada, Newfoundland, and Latin America together were to supply one-fourth of the goods. Only 7 percent was to be bought in the participating countries themselves, since ECA authorized such procurement prior to October 1, pending the institution of the Intra-European Payments Plan and the substitution of European currencies for dollars in intra-European trade. Non-participating countries outside the Western Hemisphere were to provide the remaining 6 percent of ECA-financed commodities.

The following table shows the procurement authorizations issued by the ECA through December 31, 1948, by broad types of commodities:

Commodity Group	Procurement Authorizations (In millions of dollars)
Food, feed and fertilizer	1,384.3
Fuel	561.8
Raw materials and semi-finished products	1,038.8
Machinery and vehicles	576.8
Miscellaneous and unclassified	145.2
	3,706.9

CHAPTER IV

Effect of the European Recovery Program on the U. S. Economy

A. EXPECTATIONS AND ACTUAL DEVELOPMENTS THROUGH 1948.

Although it was recognized when the European Recovery Program was first proposed that it would result in great long-range political and economic benefits to the United States, considerable concern was expressed lest such a program endanger our domestic economy by adding to inflationary pressures and depleting our resources. The President, recognizing this possibility, asked the Council of Economic Advisers and the Secretaries of the Interior and Commerce to study these questions. Congress expressed its concern on this point by requiring, in the Economic Cooperation Act, that the Economic Cooperation Administration provide for procurement in such a way as to "minimize the drain upon the resources of the United States" and "avoid impairing the fulfillment of the vital needs of the people of the United States."

In order to evaluate actual developments in the light of this concern, it is necessary to review briefly the background that gave rise to them. Secretary Marshall made his proposal in June 1947, when the export surplus had been rising rapidly and foreign demand was adding considerably to inflationary pressures. Total exports of goods and services had increased 40 percent in a half year and the excess of such exports over imports had increased by 70 percent. Both in absolute terms and as percentages of gross national expenditure, the levels reached in the second quarter of 1947 exceeded any peacetime level reached since the years immediately after World War I. Against this background, intense concern was natural, especially since it was not then apparent that Secretary Marshall's speech coincided with what has since proved to be the peak of our exports and that a rapid decline would follow.

1. The Export Surplus, Total National Expenditures, and Wholesale Prices.

The main fear expressed was that the ERP would add to inflationary pressures not merely in the sense of making them greater than they would be in its absence—which it obviously would do—but in the sense of causing further inflation than had already occurred. The Council of Economic Advisers, not knowing how large the program would be when it prepared its report of October 1947, considered the effects of a maximum program of 8 billion dollars a year. It concluded that even with such a program the total surplus of exports over imports, including goods and services, which is the best single measure of the inflationary effect of international transactions, would not be as high as it had already been in early 1947. This conclusion was based on the assumption that other sources of dollars available to foreign countries would provide 3 to 4 billion dollars a year, so that the total surplus would be at a maximum of 12 billion dollars in the first year of the program. This was in contrast with the annual rate of 12.5 billion reached in the second quarter of 1947 and 11.3 billion in 1947 as a whole. The Council, therefore, assumed in its further analysis that "the export surplus resulting from any future foreign aid program will at no time equal, and for most of the time will be substantially less than levels which have been reached during the current year", i.e. 1947.

Actually, the ERP has not reached, and is not likely to reach, a rate much above 5 billion dollars a year for any major portion of a year and the total of U. S. Government aid so far enacted, including the cost of providing civilian supplies for occupied areas, aid to Greece and Turkey, and other programs already adopted, is not likely to reach an annual rate of 8 billion dollars. In addition, funds from other sources, such as sales of gold and other foreign assets and export of private American funds, have been far less than the estimate of 3 to 4 billion dollars a year that the Council allowed for. The result is that the total surplus of exports over imports of goods and services has been less than was generally anticipated and much less than the maximum figure on which the Council based its general conclusion.

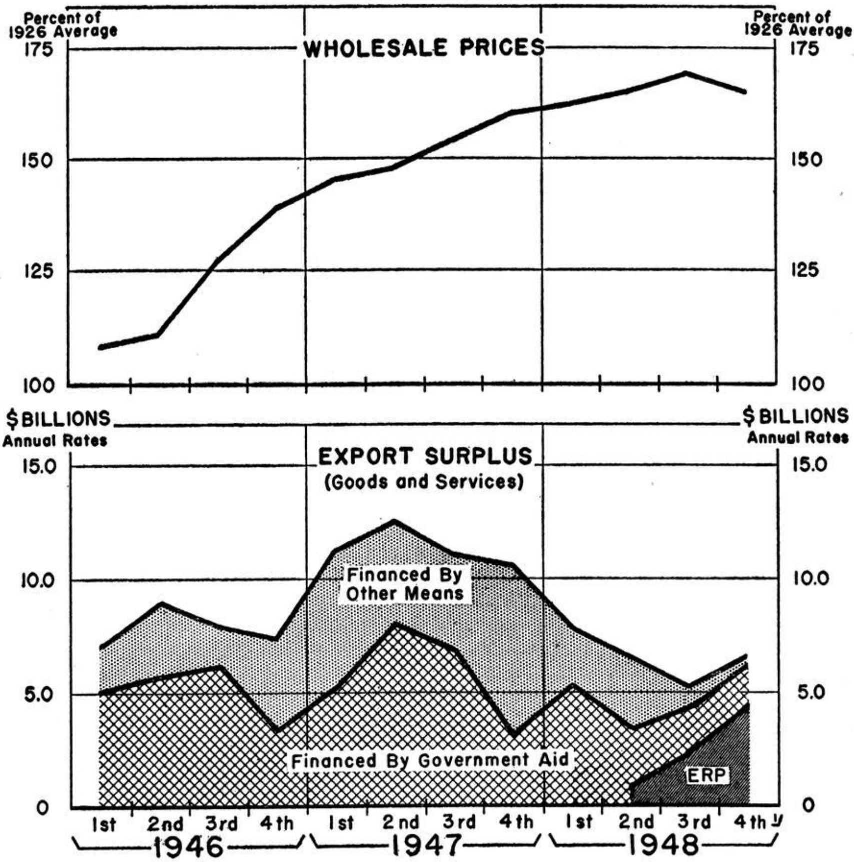
The limited question whether actual operations under the Program so far have increased inflationary pressure can be answered fairly simply. The Program has been in operation only ten months and exports under it have been of significant volume only since the late summer. Since that time there has been no evidence of new inflationary pressure. In fact, the rise of prices has tapered off. This is true not only of agricultural prices but of most other prices. The average of wholesale prices of commodities other than farm products and foods has hardly budged since August, although there have been divergent movements among individual commodities.

But a conclusion based on so short a period is not very significant. It is desirable to go back to the time the Program was proposed and to see it in the context of our other international transactions and of developments in the economy as a whole.

From the second quarter of 1947 to the last quarter of 1948, total national expenditures for goods and services increased by an annual rate of 33 billion dollars—from a rate of 228 billion dollars a year to 261 billion. But this increase resulted entirely from domestic factors in the economy: personal consumption expenditure, gross private domestic investment expenditure, and expenditure by Federal, State and local governments, excluding expenditure for foreign aid, all rose. Taken together, these domestic expenditures went up from a rate of 216 billion a year to nearly 254 billion, an increase of 38 billion.

U.S. EXPORT SURPLUS AND WHOLESALE PRICES

1946–1948



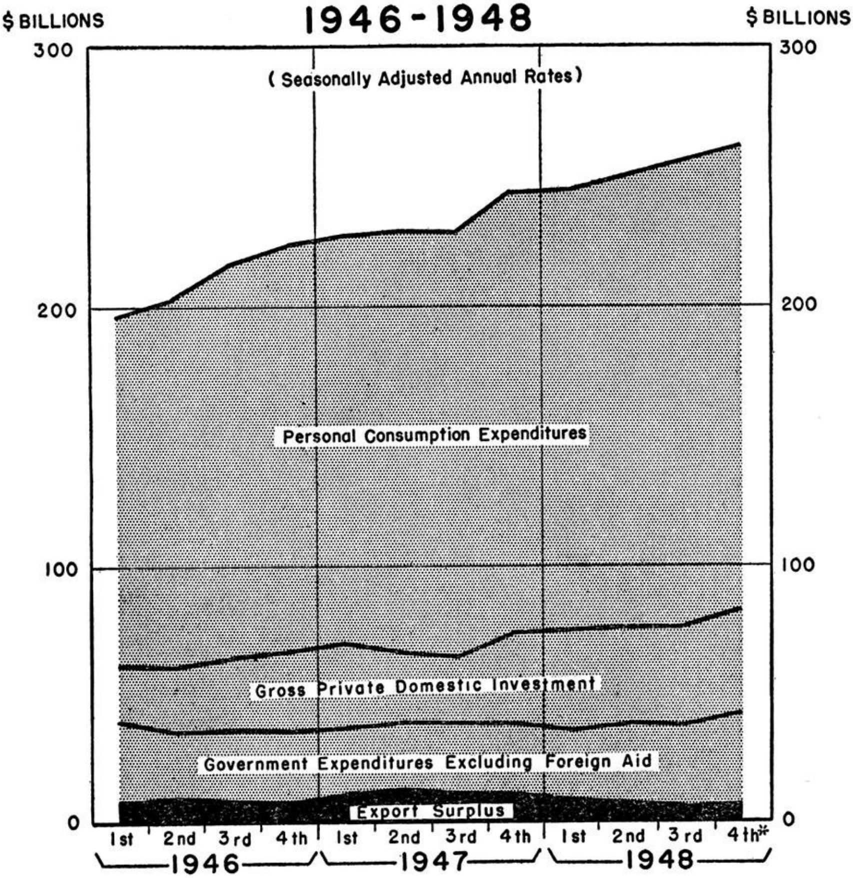
1/ Based on incomplete data.

Source: Department of Labor and Department of Commerce

The total export surplus, including goods and services, fell without interruption and with great rapidity through the third quarter of 1948, partly because of a rise in imports but mainly because of a fall in exports. From the peak second quarter of 1947, when it was running at an annual rate of 12.5 billion dollars, the total export surplus fell to an annual rate of 5.2 billion dollars in the third quarter of 1948, a decrease of more than 7 billion dollars a year, of which 6 billion represented a decrease in the surplus arising from commodity trade. As a percentage of the gross national expenditure, it fell from 5.5 percent to 2 percent. The portion that can be accounted for by Government aid is of course less but it, too, declined in the same period from 3.5 percent to 1.7 percent of the total gross national expenditure. (More detailed statistical information regarding international transactions is presented in the Statistical Annex (Tables IV-1 to IV-12.)

GROSS NATIONAL EXPENDITURE FOR GOODS AND SERVICES

1946-1948



*Estimate based on incomplete data.
Source: Based on Department of Commerce data.

In the last quarter of 1948, the total export surplus turned up again, according to preliminary estimates, but for most of the past two years it was the only major element in the gross national expenditure that did not rise. This is shown in the above chart and Statistical Annex, Table IV-1.

During most of this period wholesale prices rose rapidly. In view of the fact that the export surplus was falling and the rise in total expenditure was wholly the result of developments in domestic spending, it is clear that the rise of prices cannot be attributed to the effect of international transactions. This is strikingly demonstrated in the chart on page 117 which shows that, while prices and the export surplus both rose in 1946 and 1947, for most of the past two years wholesale prices were rising when the export surplus was falling. Prices appear to have stabilized just when the fall in the export surplus stopped. (See also Statistical Annex, Table IV-2.)

Disbursements under ERP were only a partial offset to the decline in dollars available to foreign countries through other aid programs and through liquidation of their gold and dollar assets. These disbursements reached a rate of more than four billion dollars a year in the third quarter of operations. However, the Government's other foreign aid programs, which had become an increasingly important element in financing the export surplus, fell during most of this period. The main element in the decline of the export surplus, viewed from the financial side, was the reduction in the rate at which foreign countries were liquidating their assets.

While the rise in prices over the past year and a half cannot be attributed to a rise in the export surplus or in Government foreign aid, the relation of foreign aid to the price situation may be considered from another point of view. In addition to asking whether the rise in prices that has occurred during a period is attributable to a rise in foreign demand, we may ask whether prices would have been lower in the past two years if foreign aid had been less. The answer is that inflationary pressure would have been less had Government aid been smaller. Even this conclusion must be qualified, however, to take into account the fact that certain other sources of dollars, such as international agencies, aid from private citizens, and perhaps even the already reduced reserves of foreign countries might have played a greater role, and that domestic factors, such as the amount of tax reduction, might also have been more inflationary.

2. Effects on Commodities in Short Supply.

While the effects of Government aid and the export surplus upon the economy as a whole can be most broadly evaluated through their effects upon total income and upon price averages, it is possible that the conclusions reached in this way would have to be qualified or even altered because of effects upon specific sectors of the economy. There are some commodities important enough in the economy to have a disproportionate effect on total income and the whole price level. They enter into the manufacture of many important products or influence the wage level through their effects either upon profits in crucial industries or upon the cost of living. If foreign aid pushed up the prices of such commodities, it could have a general inflationary effect.

Most of our exports are not of this strategic character. A review of the economically strategic commodities does not indicate that exports have actively pushed up prices since 1947, although they might have done so in a few cases if steps had not been taken to prevent it.

Steel is the outstanding case of a commodity in short supply in the United States, the supply and price of which affect our entire economy. Total exports of steel mill products have been declining steadily from 10.7 percent of our total supply in the second quarter of 1947 to 5.7 percent in the third quarter of 1948, with exports to Western Europe also falling off. The cut in exports has had the effect of making more steel available for use in this country. (See Statistical Annex, Table IV-10.) The decline has been a reflection of limited foreign dollar resources, difficulty in obtaining supplies in this country, a substantial improvement in steel production abroad, and the exercise of more restrictive export control. Through the end of 1947 only half the tonnage exported was under license control. In early 1948 virtually all types of steel products were put under control and export quotas were set considerably below 1947 rates. Without this control foreign demand would have caused greater pressure on steel supply and prices in this country. Only about 19 percent of steel procurement under the ERP has been outside the United States, since the products required cannot be obtained in substantial quantities elsewhere.

Non-ferrous metals are also in very tight supply in the United States and their prices rose sharply throughout 1948. Exports are closely controlled. Since the U.S. is a net importer of many of these metals, offshore procurement may affect U.S. supply. Procurement authorizations for these metals have been held to minimum essentials.

Petroleum and its products were in short supply a year ago. Exports have been reduced below 1947 levels. Imports have risen so that we are, to a greater extent than in 1947, net importers of crude oil. With production also rising, supplies available for domestic use have increased substantially. This is shown in the Statistical Annex, Table IV-12.

Export controls have been closely geared to changes in the domestic supply situation. Thus, in the first quarter of 1948, when emergency winter needs at home had to be met, exports of major liquid petroleum products were cut to less than three-fifths of those in the first quarter of 1947 and nearly to half the 1939 figure. In the year 1948, the quantity of crude oil and liquid petroleum products shipped to participating countries directly from the United States was 38 percent less than in the year 1947, while exports to all other countries declined only about 8 percent.

The pressure on domestic supply and prices has also been limited, since the beginning of ERP operations, by authorizing procurement in the United States of only 34 percent of the total value of ECA-financed imports of crude oil and petroleum products into the participating countries. The remaining 66 percent were authorized for offshore shipment, almost entirely from the Caribbean and Middle East areas. However, in terms of quantities, a much smaller proportion (in the neighborhood of 20 percent) has been authorized for procurement from the United States because a much larger proportion of the higher-valued products come from the United States. For example, all lubricating oil financed by ECA has been shipped from the United States.

Agricultural machinery, the domestic demand for which has been enormous since the war, is one of the few products that were exported in larger volume in 1948 than in 1947. Only about one-third of the increase and only about 20 percent of the total dollar volume of exports in 1948 went to countries participating in the ERP. Congress, in the Foreign Aid Appropriation Act, 1949, provided that no funds appropriated thereby were to be used for the purchase of farm machinery in the United States which would bring the total exports of such machinery to ERP countries during the appropriation period to more than $75 million. It seems likely that exports will be significantly below this figure. Since the enactment of this restriction, domestic production has been rising and there is considerable evidence that the domestic supply-demand situation has improved.

Meat is of chief popular interest, among the food and agricultural commodities, in connection with the cost of living. It represents more than one-tenth of the whole Consumers Price Index compiled by the Bureau of Labor Statistics and more than one-quarter of the food component of this index. The ECA has not authorized the procurement of any meat in the United States, except horsemeat. In fact, in 1948 total exports of meat were less than one percent of the total domestic supply. Exports, which are tightly controlled, are an insignificant factor in the meat price situation. Quantities available for domestic use fell about 10 pounds per person but this reflects diminished supplies and increased population.

Exports of *dairy products,* also important in the cost of living, have fallen from 3.8 percent of total distribution in 1947 to an estimated 2.4 percent of a slightly smaller total in 1948. The reduction in exports was enough to offset more than half of the decline in supplies available.

Exports of *food fats and oils* (other than butter), another group that has been in short supply, fell from about 11 percent of total supply, including imports, in 1947 to about 9 percent in 1948. Since total supplies also rose, the actual quantity available for domestic use increased.

Wheat, cotton and *tobacco* are the major agricultural products for which exports are a large fraction of our market. In 1947 we exported 494 million bushels of *wheat* (or its equivalent in the form of flour) which was 40.8 percent of total distribution. In 1948 exports were even higher, 520 million bushels, but owing to the increase of supplies the proportion exported was slightly less (39.7 percent) and the quantities available for domestic use increased. Since domestic consumption actually declined, the difference showed up as an increase in stocks. Of the ECA procurement authorizations issued so far for wheat and other bread grains, about 65 percent have been for procurement in the United States and the other 35 percent in Canada.

Exports of both *cotton* and *tobacco,* including the raw equivalent of manufactured products, declined from slightly over one-third of the total distribution in the 1946 crop year to nearly one quarter of a smaller distribution in the 1947 crop year. The prices of these crops, like that of wheat, have recently not been far above the levels at which the Government is obligated to support them.

Viewing ECA activities in the context of the general price situation, it may be said in summary that procurement for the ERP has not kept the prices of food and agricultural commodities significantly higher than they would otherwise have been during 1948. In the field of industrial commodities, especially the non-ferrous metals, foreign aid in the past year has had a somewhat greater effect on prices and domestic supply. It is chiefly in this area of the economy that shortages and inflationary pressures continue to be felt. Industrial commodities accounted for 51 percent of ECA commodity procurement authorizations in 1948. Forty-two percent of procurement of industrial commodities was authorized offshore, as contrasted with 34 percent for food and agricultural commodities.

B. THE OUTLOOK FOR THE NEXT YEAR AND A HALF.

1. The ERP in Relation to the Economy as a Whole.

The fact that total exports and the export surplus declined sharply after the second quarter of 1947, exerting less inflationary influence in the last half of 1948 than at any time in the post-war period, does not necessarily mean that a further decline can be expected. The past half year probably marked a temporary low point. Foreign reserves and Government aid programs other than the ERP had run out and shipments under the ERP had not reached peak levels. The pace of shipments under ERP is now rising and will probably continue to rise more or less steadily, reaching a peak sometime in 1949. At the same time it is probable that the total of other Government foreign aid programs now authorized will not decline substantially in the next year and a half.

Whether or not the resulting increase in total shipments under existing Government aid programs will be matched by an equal increase in our total export surplus will depend upon policies and developments in foreign countries. To the extent that the dollars earned by nonparticipating countries through sales to participating countries are not used for purchases in the United States, our commodity markets are unaffected. On the minimum reasonable assumption as to the use of these dollars to buy American goods, it seems safe to say that our export surplus will rise slightly from the annual rate of 5.9 billion dollars in the second half of 1948. In that case, our aid might exert a slight further inflationary effect upon domestic incomes and the general price level.

On the other hand, if foreign countries supplying goods to Western Europe under the ERP use practically all the proceeds to buy American goods, and if other important sources of funds continue to be available and to be used to roughly the same extent as in 1948, our export surplus could conceivably reach an annual rate of 8 billion dollars during 1949. This would be much less than the 1947 level but would be higher by about 2 billion dollars a year than the annual rate in the second half of 1948. Such an increase would be an influence in the direction of further inflationary pressure.

While the peak of the export surplus under existing programs may not be reached until the second half of 1949, the peak of its economic effects will probably be felt earlier. Export figures relate to actual shipment of goods from our shores. By the time goods are shipped, the employment and other productive activity associated with them has already occurred and most of the income created by this activity has already been paid out. The direct price impact begins to be felt when foreign buyers place their orders and producers buy the necessary materials.

The course of authorizations granted to participating countries to procure goods in the United States indicates the earliest time when these effects may be felt, apart from the sometimes exaggerated effects of expectations. Authorizations to procure goods in the United States were being issued at a rate of 5.4 billion dollars a year in the last quarter of 1948. It is unlikely that this rate will be exceeded. Making some allowance for a lag between the issuance of authorizations and the economic effects of orders actually placed, it is likely that the peak economic impact will be felt in the first part of this year. These short-term effects can be expected to taper off in the second half of 1949 because the rate of foreign ordering under the recommended appropriation for the fiscal year 1950 will be lower. In addition, orders will be spread more evenly throughout the next fiscal year than in this one.

Even if the assumption of a 2 billion dollar a year increase in the total export surplus should be realized—and some regard so high a figure as quite unlikely—it would still be only one among the factors that make further inflation a possibility. A study of the Annual Economic Review of the Council of Economic Advisers, submitted with the President's Economic Report, indicates recent and current trends in domestic expenditures. Capital expenditures in some manufacturing industries are showing indication of prospective softening, private residential construction began to decline during 1948, some extraordinary consumer demand was tapering off, and inventory replenishment has been largely completed. Also operating to restrain further price increases is an expected increase of production and supplies of goods available to consumers. On the other hand, plans for expansion and modernization are still strong in some major manufacturing and non-manufacturing industries so that an abrupt slackening of private capital expenditures should not be expected. Moreover, Federal, State and local government cash payments, excluding foreign aid, may rise in 1949 about 5 billion dollars above the annual rate reached in the second half of 1948. This may more than compensate for any slackening of private capital expenditures. Besides this there is the possibility of further wage increases. This would lead to the generation of additional consumer income.

2. Specific Commodities.

It is probable that there will be an increase in total exports of machinery, freight cars, and perhaps steel mill products, as compared to the rate of exports in the second half of 1948. The increase is expected to be chiefly, if not entirely, a result of expanded shipments to Western Europe, except in the case of steel mill products, of which

Western Europe will take less than has been taken in the current year. According to present estimates no marked change is expected in copper, lead, and other non-ferrous metal. Exports of bituminous coal and cotton textiles, which fell sharply from 1947 to 1948, are also expected to decline somewhat further.

Among the food and agricultural commodities, total meat exports will probably continue to be insignificant, as in 1948, while exports of dairy products will probably remain less than 3 percent of total supplies. Wheat and wheat flour exports in 1949 are expected to diminish somewhat below the extremely high 1947 and 1948 levels, although they will remain high.

The major increases in exports of food and agricultural products may be in raw cotton and corn. The expected increase in cotton arises from shipments to ERP countries, which are expected to take at least 40 percent more in 1949 than in 1948. However the increase in the 1948 cotton crop over that of 1947 was even larger than the prospective increase in cotton shipments to ERP countries. Corn exports are expected to rise from about 30 million bushels in 1948 to perhaps 150 million bushels in 1949, almost the entire increase resulting from shipments to ERP countries. This quantity would still be a small percentage of the supply expected to be available and will leave for feeding and other domestic uses a quantity much larger than was available not only in 1948, when supplies were low by war and post-war standards, but also in 1947.

C. POLICIES AFFECTING INFLATIONARY IMPACT OF EXPORTS.

Generally speaking, ECA, in cooperation with other agencies of the Government, has tried to minimize the impact of the ERP upon prices and domestic supplies by offshore procurement and by limiting the quantities of certain goods that may be exported from this country.

1. Offshore Procurement.

The procurement of commodities in other countries of course relieves the United States of some of the drain on its natural resources, current production, and domestic supplies that would be felt if all commodities required for the aid program were purchased here. The extent of offshore procurement for some individual commodities has already been referred to. For the program as a whole, 38 percent has been authorized for procurement offshore through December 31, 1948, 34 percent in the case of food and agricultural commodities, and 42 percent in the case of industrial goods. Of course, it is not possible to establish any general rule that the tighter the supply situation here, the smaller the percentage that may be purchased here. Some of the products most needed to get Europe back on its feet are available elsewhere in only small quantities. Thus steel mill products and machinery, required to meet Western Europe's deficit, must come primarily from the United States. But under the ERP, procurement in other countries has accounted for more than 75 percent, by value, of nitrogen fertilizer, non-ferrous metals, metallic ores and concentrates, meat, and pulp and paper.

The countries that supply commodities under offshore procurement authorizations receive dollars in payment. If they use these dollars to buy in the United States, then the particular goods involved in the European procurement are not exported by the United States, but goods wanted by the supplying country are exported instead. To the extent, therefore, that the supplying countries spend the dollars they receive, the total demand for American products is not reduced. The supplying country, however, is likely to use the dollars to buy different commodities from the United States than it supplied to Western Europe. Since the commodities that the supplying country may want from us are likely to be under export control if they are in short supply, the effect of offshore procurement with re-spending of the dollars by the supplying country, is to divert foreign demand from commodities which are in short supply here to other commodities.

If the supplying country, instead of spending the dollars it earns on American products, uses them to repay dollar debts owed in the United States or to acquire gold or dollar reserves, the total amount, and not merely the distribution, of our exports is affected. When the ERP was being considered it was generally assumed that virtually all of the funds earned by supplying countries as a result of offshore procurement would be spent by them for American goods. Depletion of gold and dollar reserves proceeded so rapidly, however, that some countries found it preferable to restore their reserve position first.

This fact has raised the question of whether offshore procurement will not actually reduce our total exports below what they would be if all goods were procured in the United States. It is too early to predict what proportion of funds made available through offshore procurement in non-participating countries will be spent here, but it still seems reasonable to suppose it will be high. In most cases the desire for American goods continues intense and if the reserve and dollar debt positions are not too unsatisfactory, restriction on purchases from the United States are likely to be relaxed. Thus, in December, Canada announced the relaxation of some restrictions upon imports from the United States. Some of the Latin American countries are likely to use a portion of the funds they receive to repay short-term debts incurred in the United States.

2. Export Controls.

Export control is the second major means of restricting the pressure of foreign demand upon the American economy, although it has several other important purposes. Its operation is not confined to exports made to Europe, but can be applied to all shipments from the United States, irrespective of how they are financed or where they are going. It is being used to prevent the shipment abroad of excessive amounts of scarce products.

Although the authority applies to the export of nearly every industrial and agricultural commodity, the bulk of our merchandise exports is not in short supply commodities. Quantitative export controls are exercised over only about 31 percent of our exports to countries other than Canada, exports to which are not controlled. The control is concentrated in foodstuffs (chiefly grains), metals, and fuels. Machinery and transportation equipment are almost entirely free of quantitative controls, except for freight cars and a few minor items. This is not because their exports are unimportant; on the contrary they are quite important. But for some of these goods, e. g. machine tools, the expansion of capacity made it possible to meet all current demands. In other cases exports are being restricted by the producers themselves. To use quantitative export controls in these cases would serve no useful purpose.

Of our total exports, 33 percent went to the Western European countries, about the same percentage as before the ERP and, incidentally, a somewhat smaller percentage than before the war. But these countries took about 58 percent of the exports under quantitative restrictions. To express the same thing in another way, restricted items constituted 43 percent of our exports to Western Europe but only 20 percent of our exports to other areas subject to such restrictions. Judging, however, from the fact that both of these percentages were about the same before the ERP got under way, this high proportion going to Western Europe does not appear to reflect the use of export controls to divert shipments from other areas. It rather reflects in large measure the character of Western European requirements in the postwar period.

D. OTHER ASPECTS OF THE EUROPEAN RECOVERY PROGRAM.

If the inflationary factors discussed above continue to be strong on balance, the ERP will contribute to upward pressure on the economy in the manner described. If domestic markets weaken, however, the effect of the ERP will be to help support the level of production, employment, and income. This result would, of course, be only incidental to the main purpose of the ERP. With a diversity of movement for different types of goods, as is probable, both the price raising and supporting effects will be felt simultaneously, although in different markets.

While the effect of the ERP upon inflationary pressures in the American economy is the most pressing and immediate aspect of its domestic effects, it is of course not the only one. Taking a longer view, the major effect will be that of European recovery itself. The importance of this for the United States was recognized by Congress in passing the Economic Cooperation Act and need not be discussed here. It is worth pointing out, however, that recovery can be achieved via different routes and that these routes would lead Western Europe to different positions at the end of the program. The economy of the United States will be affected by the nature of recovery, which in turn will be greatly affected by ERP policies and actions. It is through this influence that the ERP most fundamentally affects the economy of the United States. At the present time it is too early to evaluate ERP operations from this point of view.

CHAPTER V.

ECA Organization

The Economic Cooperation Act of 1948 defines the three principal divisions of the organizational structure of the Economic Cooperation Administration in connection with the European Recovery Program: the Administrator in Washington, who heads the entire enterprise; the United States Special Representative in Europe, who has responsibility under the Administrator for carrying out and supervising ECA activities in the field and is the chief representative of the United States to the OEEC; and a special ECA mission in each of the participating countries.

A. THE ECA OVERSEAS.

The work of the Office of the United States Special Representative in Europe (OSR) and of the ECA Special Missions in each of the participating countries centers in efforts to promote self-help and mutual aid on the part of the participating countries, to assess Europe's deficiency requirements for which the participating countries must seek aid from the United States, and to help assure that aid from the United States is used with maximum effectiveness.

When this work relates to problems within a single country, for which the solution must be found wholly or primarily in the efforts of that country, the focus of responsibility is in the ECA Country Mission. When the problems involve more than one country, or are such that the solutions require action by more than one of the participating countries, the focus of responsibility is in the Office of the Special Representative.

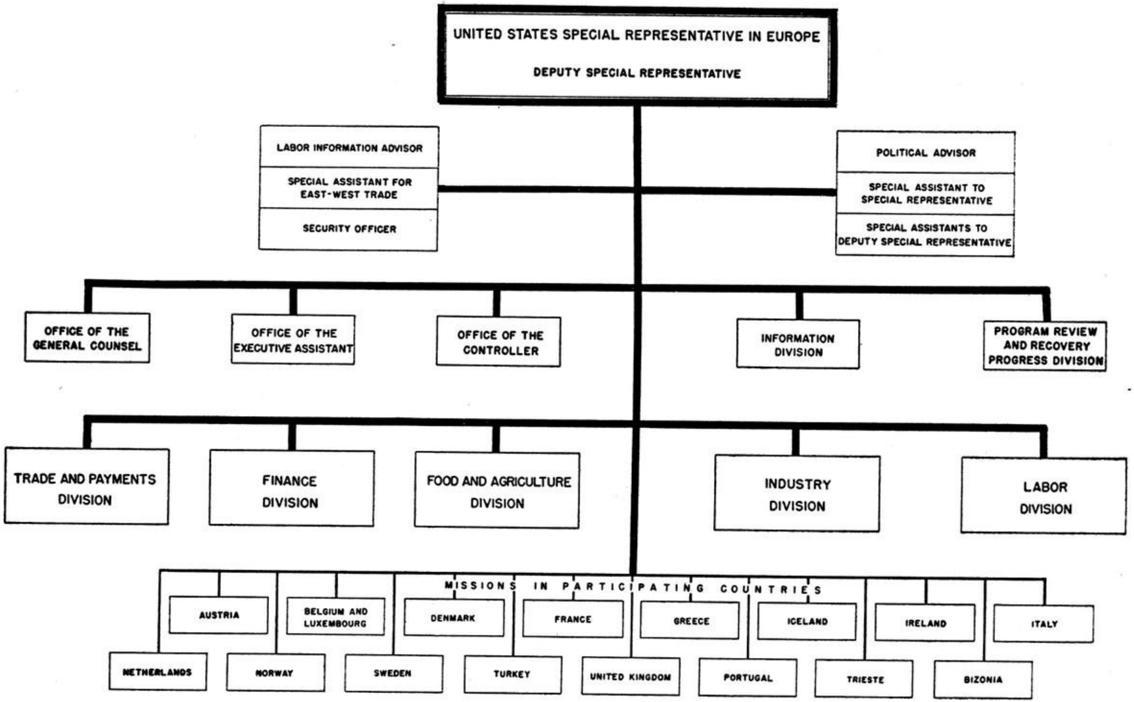
The characteristic, and most significant, example of this latter aspect of the work of the Special Representative is his relationship to the OEEC to which he is, in the language of the Act, "the chief representative of the United States Government." The Special Representative also exercises general supervision, on behalf of the Administrator, over the Country Missions. In addition, he serves as the representative of the United States on the Economic Commission for Europe.

It has often been pointed out that ECA aid to Europe during the fiscal year 1949 represents about 5 percent of the gross income of the participating countries. Plainly, therefore, the core of the job of putting Europe on its feet must be done by the European nations themselves in the utilization of the resources of Europe. This self-help includes the accurate diagnosis of the difficulties which must be mastered, the development of policies appropriate to the need thus revealed, and the effective execution of these policies. It includes efforts to increase

ECONOMIC COOPERATION ADMINISTRATION

OFFICE OF THE SPECIAL REPRESENTATIVE

PARIS, FRANCE



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production and productivity, to control inflation, to hold labor disputes to a minimum, to reduce unessential imports, and to increase exports, especially to dollar areas. Measures to bring about widespread dissemination within each country of technical knowledge and best practices within fields of industry, labor, agriculture, government, and finance are also involved.

Work of this kind is, of course, primarily the responsibility of the participating countries, but there is perhaps no task of the OSR and the Country Missions more important than that of encouraging and assisting the governments of the participating countries to the fullest extent possible in meeting these responsibilities. This requires the kind of understanding which can only be acquired by painstaking and continuous observation, and by intimate and straightforward exchanges of views on the ground. This process of observation and exchange also enables the Chiefs of the Country Missions and the Special Representative more effectively to carry out another function, implicit in the nature of their duties—to serve as the regular channel of communication between the Administrator and the governments of the participating countries, and between the Administrator and the OEEC.

Mutual aid among the participating countries is a projection of self-help. It is, in fact, self-help by Western Europe as a whole. Europe cannot attain the stability and vigor which are the objectives of the Economic Cooperation Act without a steady deepening and extension of cooperative effort. Here again, the responsibility is that of the participating countries; and here again, no task of the Office of the Special Representative and of the Country Missions is more important than that of promoting and assisting cooperative developments in every way that is both practicable and appropriate. It is in this sphere particularly that full and constant interchange not only between the participating governments and the ECA field organization but also between the U. S. Special Representative and the Chiefs of the ECA Country Missions is essential. There has been steady progress in working out this kind of interchange through reciprocal visits, group staff meetings, and reports. The furnishing of experts, visits of specialists of one country to review experience in another, and mutual efforts to increase technical knowledge, under the ECA technical assistance program, constitute a promising form of mutual aid.

In *Chapter II*, the process by which the individual participating countries prepare their estimates of their requirements for American aid, and the OEEC attempts to review and adjust these on a comprehensive basis, has been described. The estimates of the individual countries are reviewed by the Country Missions, and the comprehensive programs worked out by the OEEC are reviewed by the OSR. It is the particular responsibility of the Country Missions and the OSR to utilize their on-the-spot knowledge to review these estimates in terms of their validity as requirements. With this in view, the Country Missions and the OSR seek to determine the urgency of the stated needs, how far it would promote the objectives of the Act to meet them, how much effort the particular country has itself made to meet the needs, and how far the requirements could be met by increased trade or cooperation among the participating countries themselves. This work is done in two phases: first, day-to-day contact with the appropriate departments and agencies of the participating governments, and with the Committees of the OEEC, largely on a staff basis and to considerable extent on an informal basis; and second, the formal critique of the final documents. The OEEC estimates are transmitted to Washington with the recommendations of the Country Missions and the Office of the Special Representative. After further review by the ECA staff in Washington, they are laid before the Administrator for his consideration and use in determining the program of United States assistance.

As aid is supplied, the Country Missions and the OSR seek to determine how fully and effectively it is used. This involves not only procedures for checking the "end-use" of particular shipments or groups of shipments, but also inquiry into the effect of larger national policies and practices, such as financial and trade policies and practices, upon the utilization of aid, and analysis of actual trends in relation to the forecasts of requirements.

The OSR organization created to cope with these responsibilities is shown in the accompanying chart. On December 31 the American personnel of OSR numbered 407.

The size and organization of the Country Missions varies from country to country in accordance with the size and nature of the problem. Of the largest missions, those in Italy, the United Kingdom, and France had staffs of 45, 62, and 87 on December 31, while the mission in Greece, because of its history and the special nature of the complex activities required, was even larger (129). The smallest missions, with staffs of less than ten persons, draw heavily upon the local Embassy or Legation staffs for professional as well as administrative assistance.

The principal operating and staff divisions of the OSR are: the immediate Office of Special Representative; the Office of the Deputy Special Representative; the Divisions of Industry, Food and Agriculture, Labor, Trade and Payments, Finance, Program Review, Information, and Labor Information; and the Offices of the General Counsel, the Controller, the Executive Assistant (who supervises administrative services), and the Special Assistant for East-West Trade. The organization of the larger Country Missions approximates this same pattern with appropriate variations. The administrative services division of OSR, operating under considerable delegation of authority by the Administrator to OSR, assists in the many aspects of the work of the OSR and the Country Missions in which decisions are made by them within broad policies defined by the Administrator.

B. THE ECA IN WASHINGTON.

The Administrator, with the assistance of his Washington staff, determines questions of broad ECA policy and, in cooperation with other agencies of the United States Government, endeavors to insure that the European Recovery Program, in its development, is consistent with the basic policies and interests of the United States. In an enterprise as important and far-reaching as the ERP, these fundamental decisions must be made in close cooperation with other agencies of the Government and in close contact with the President and the Congress.

While the participating countries and the OEEC are formulating their plans and requests, these are reviewed by the ECA country missions and by the Office of the Special Representative to determine the extent to which the aid requests are justified and effective use can be made of American help in Western Europe. After these European programs and the recommendations of the overseas staff of the ECA are received in Washington, they are evaluated here by the Administrator and his staff in terms of the basic policies and views of the ECA in particular and of the United States Government in general. The Administrator is responsible for the final determination of the program of United States aid and of the allotment of this aid among the participating countries.

In cooperation with other United States Government agencies, the Washington staff of the ECA also determines the availability of supplies from the United States and elsewhere, and authorizes the procurement of commodities with ECA funds in such a manner as to protect the economy, resources, and strategic interests of the United States. Lastly, the Washington staff undertakes such economic research and analysis as can best be done with the facilities available in Washington, to serve as the basis for the determination of United States policy with respect to the ERP and as the framework for an independent United States appraisal of the programs of the participating countries and the OEEC.

To perform these and related functions the Washington headquarters of the ECA had a staff, not yet completed, numbering 842 persons on December 31. The structure of the organization is shown in the accompanying chart.

The programming responsibilities of the ECA in Washington are centered in the Assistant Deputy Administrator for Program and the divisions under his direct supervision: Fiscal and Trade Policy, Program Coordination, Food and Agriculture, and Industry, and the Program Methods Control Staff. The Fiscal and Trade Policy Division, in cooperation with other United States Government agencies, is primarily responsible for reviewing the measures taken by the participating countries and the OEEC with respect to intra-European trade, convertibility of currencies, exchange rates, the use of monetary funds, and investment, fiscal and monetary policies and practices generally, from the standpoint of the views and interests of the United States and the basic ECA policies determined by the Administrator. In addition, the Fiscal and Trade Policy Division undertakes research into and analysis of those fiscal and trade problems which it is in a better position than the overseas staff of the ECA to undertake.

The Program Coordination Division, which is organized on a country basis, reviews, in cooperation with other United States Government agencies, the recovery programs and progress of the participating countries and the OEEC, in the light of basic policies of the ECA and of the United States Government. It recommends to the Assistant

Deputy Administrator for Program, and through him to the Administrator, the allotment of ECA funds to be made to each participating country both by quarters and on an annual basis. This Division provides guidance to the ECA country missions on ECA and United States Government policies with respect to the several countries in the ERP. It also undertakes considerable economic research and analysis on those country problems which can be studied by the ECA staff better in Washington than abroad.

The Divisions of Food and Agriculture and of Industry consist of the commodity experts needed in the review of country programs and in the ECA's supervision of procurement with United States aid funds. In cooperation with other United States Government agencies, they review the recovery programs of the participating countries in terms of the possibilities for increasing agricultural and industrial production in Western Europe and dependent overseas territories, and they evaluate the effective use of land and of industrial plants and the improvement of farming practices and industrial methods by the participating countries. These Divisions also check the proposed imports of agricultural and industrial commodities by the participating countries in the light of relative needs, and of availabilities in the United States and in other sources of supply. The quarterly supply programs of each participating country, covering their intended procurement with ECA funds, are prepared in these two Divisions. They help to determine the types, quantities, values, and sources of commodities to be bought with ECA funds and prepare the master copies of the procurement authorizations which are issued to the participating countries. These Divisions also determine the amendment or cancellation of procurement authorizations already outstanding. In cooperation with other Government agencies, they are responsible for the protection of the domestic economy of the United States. Also, the Division of Food and Agriculture has special responsibilities resulting from the application of subsections 112(c)-(f) of the Act.

The organization for other ECA operations and staff activities is as follows:

The Director of Operations supervises the Transportation Division which is responsible for maintaining liaison with the Maritime Commission and for compliance with the United States flag vessel requirements of the Act, and the Strategic Materials Division, which is concerned with the encouragement of geological exploration of new deposits of strategic minerals and of private development of mining and refining facilities and with the procurement and delivery of strategic materials to the United States. The Director of Operations also directs the labeling of ECA-financed supplies, arranges for the payment of ocean freight charges on private relief shipments to participating countries; encourages, in cooperation with the Department of Commerce, European travel by United States citizens; and supervises the instruction of foreign technical personnel and other forms of technical assistance provided by the Act.

The staff and service functions of the ECA in Washington are performed by: the Assistant to the Deputy Administrator, who is a

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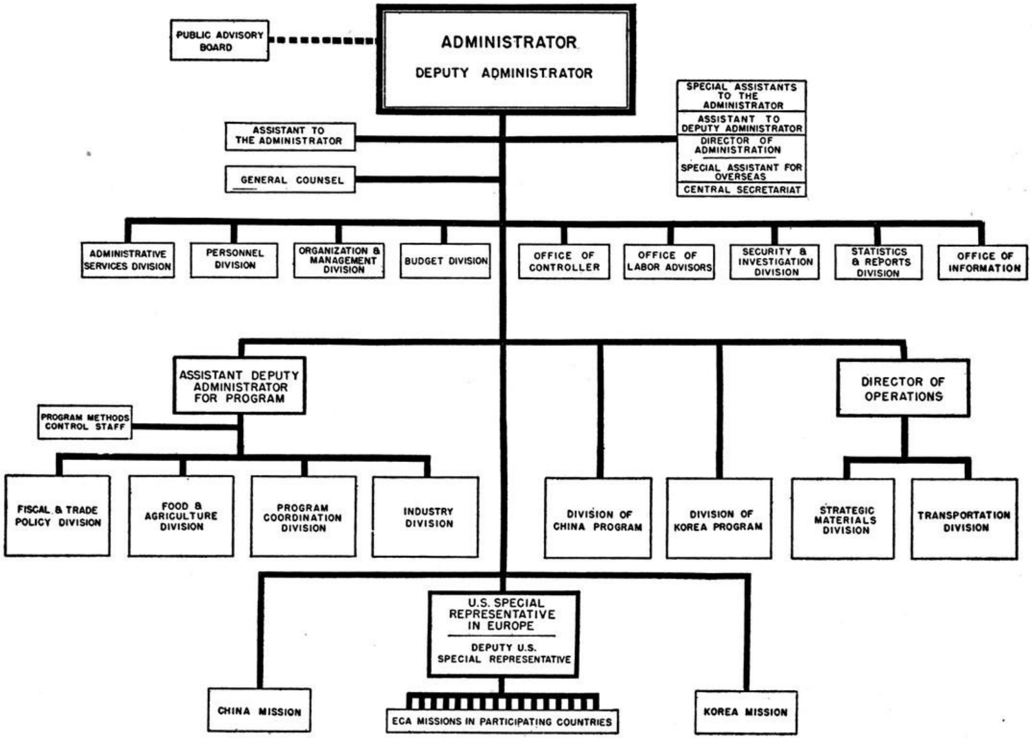
HEADQUARTERS
WASHINGTON, D. C.



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major policy-making official of the Administration; the Office of the General Counsel; the Director of Administration, under whom are a Special Assistant for Overseas Administration and Divisions for Administrative Services, Organization and Management, Budget, and Personnel; the Congressional Liaison Office; and the Security and Investigation Division. The Controller is responsible for end-use follow up as well as handling and accounting for financial transactions in connection with the execution of programs. The Assistant to the Administrator administers the loan and guaranty provisions of the Act. The Office of Information, the Office of Labor Advisers, and the Division of Statistics and Reports perform important service and operational functions in their respective fields.

C. ECA RELATIONS.

1. Relations with Other Government Agencies and with International Agencies.

Because of the varied and far-reaching nature of the ERP, the activities of the ECA require close cooperation with other United States Government agencies, both in Washington and in the field, in working out common policies and in utilizing to the fullest extent existing departmental resources. The Act itself specifies certain relationships with the Department of Agriculture, which advises the ECA what agricultural commodities are in domestic surplus supply; with the Department of Commerce, which promotes, on behalf of the ECA, the travel of Americans to Europe; the Export-Import Bank, which administers loans and industrial guaranties approved by the ECA; and with the Departments of State and Treasury. The Act further provides that the Administrator shall participate in the National Advisory Council on International Monetary and Financial Problems, with which the ECA consults on the loan-grant division of assistance, on the use of local currency counterpart funds, and other policy matters.

Since the program of ECA aid is an important implementation of United States foreign policy, relations between the ECA and the Department of State are particularly close. The ECA staff in Washington and the staff of the Department of State are in daily contact on many problems of common interest. In the field, close working arrangements have been established between the ECA missions and the diplomatic missions in the participating countries. There is also close cooperation between ECA's information offices abroad and the Department's United States Information Service and Voice of America. The ECA has utilized with great advantage the provision in the Act which authorizes the appointment by the Secretary of State, where recommended by the Administrator, of overseas staff members of the ECA to the Foreign Service Reserve and Staff Corps. In administrative matters, the utilization of the diplomatic missions' overseas staffs and facilities avoids wasteful duplication in housekeeping arrangements, pay and personnel, space, cable communications, guard services, and translation work.

The ECA participates in a number of interdepartmental committees under the chairmanship of the Department of Agriculture or the Department of Commerce which consider the requirements of the participating countries for agricultural and industrial commodities. The granting of procurement authorizations by the ECA is closely integrated with the export allocations established by the commodity committees and with export licenses issued by the Department of Commerce. Through the Department of Commerce the ECA supplies to businessmen information concerning approved quarterly supply programs, procurement authorizations issued, and other pertinent material.

The Federal Bureau of Investigation assists the ECA in ascertaining and verifying the loyalty of prospective ECA employees; the Post Office Department helps to administer the provisions for the payment of ocean freight on private relief supplies; and the Labor Department, the Federal Security Administration, and the War Assets Administration assist in other aspects of the program.

Close association has been developed, both in Washington and in Europe, between the ECA and the United Nations and related international agencies. The International Labor Organization, the International Refugee Organization, and the European Migration Movements Committee in Rome are assisting in the utilization of European labor. The United Nations Economic Commission for Europe, the International Bank, the Monetary Fund, the International Emergency Food Committee of the Council of FAO, and other international agencies also cooperate with the ECA in the promotion of European recovery.

2. Relations with the Congress and with Advisory Groups.

The Act established a Joint Committee on Foreign Economic Cooperation "to make a continuous study of the programs of United States economic assistance to foreign countries, and to review the progress achieved in the execution and administration of such programs." The Administrator and his staff, both overseas and in Washington, have consulted frequently with the members of the Committee, the Agent-General, and the Committee staff. A Special Assistant to the Administrator has been designated as the liaison officer with the Congress and its Committees.

The Administrator consults regularly with the Public Advisory Board, which is comprised of United States citizens of broad and varied experience appointed, pursuant to the Act, by the President, with the consent of the Senate, to advise on general or basic policy matters arising in connection with the Administrator's discharge of his responsibilities. The Administrator on May 21 appointed the Advisory Committee on Fiscal and Monetary Problems to advise him on the fiscal and monetary aspects of the recovery program.

On August 24 the Administrator appointed an Industrial Advisory Committee of leading American industrialists to advise him concerning the capital equipment scheduled for removal from Western Germany which, if retained, would most effectively serve the purposes of the European Recovery Program. In the fall of 1948 the Anglo-American Council on Productivity, consisting of representatives of management and labor in each of the two countries, was formed for the purpose of furthering the program for increasing productivity in the United Kingdom.

3. Relations Between ECA-Washington and Government Technical Missions.

In order to promote the development of the ERP as a cooperative effort on the part of the participating countries, the ECA has repeatedly emphasized that national programs should be developed, not in Washington, but by the participating countries with the advice of the ECA country missions and that combined recovery programs should be developed by the OEEC in Paris with the advice of the OSR. As a consequence, the ECA has not generally dealt with the Washington missions of the participating countries on problems involved in the long-range and annual programs. It has dealt with these missions, however, in many operating details, particularly in relation to the quarterly supply programs. The local government missions are often able to supply necessary technical information in the implementation of the quarterly programs, such as the specifications of the commodities to be purchased.

The local government missions have also been helpful in the satisfactory working out of the terms of letters of commitment on the basis of which banks and suppliers establish credits for the participating countries, the types of documentation to be submitted by the participating countries in support of their purchases as a basis for ECA reimbursement, and numerous related administrative difficulties.

For the above reasons and because of the large number of ECA-financed transactions through private trade channels, the ECA program has minimized the need of participating governments to maintain in Washington purchasing-mission personnel customary during the war and under previous aid programs.

D. ECA PERSONNEL.

Following is a list of top ECA personnel in the Washington headquarters, the Office of the Special Representative in Paris, and the ECA Special Missions to the ERP areas, on February 1, 1949.

ECA IN WASHINGTON

Administrator	Paul G. Hoffman
Deputy Administrator	Howard Bruce
Special Assistant to the Administrator	Samuel D. Richards
Special Assistant to the Administrator (Congressional Liaison)	J. J. Wadsworth
Assistant to the Administrator	Wayne C. Taylor
Assistant to the Deputy Administrator	C. Tyler Wood
General Counsel	A. I. Henderson

Director of Administration	Donald C. Stone
Special Assistant for Overseas	Alden W. Boyd
Executive Secretary, Central Secretariat	John Gange
Assistant Deputy Administrator	Richard M. Bissell, Jr.
Director, Fiscal & Trade Policy Div.	James A. McCullough
Director, Food & Agriculture Div.	D. A. Fitzgerald
Director, Industry Division	Samuel W. Anderson
Director, Program Coordination Div.	Edward T. Dickinson, Jr.
Director, Program Methods Control Staff	E. E. Kunze
Director, Administrative Services Div.	Orbun V. Powell
Director, Organization & Management Div .	Harry H. Fite
Director, Personnel Division	Virgil L. Couch
Director, Budget Division	Norman S. Taber
Director, Division of China Program	Harlan Cleveland
Director, Division of Korea Program	Edgar A. J. Johnson
Controller	E. L. Kohler
Director of Information	Neil Dalton
Labor Adviser	Bert M. Jewell
Labor Adviser	Clinton S. Golden
Director of Operations	Aubrey H. Harwood
Director, Strategic Materials Division	Evan Just
Director, Transportation Division	Arthur G. Syran
Director, Security & Investigations Div.	J. W. Yeagley
Director, Division of Statistics & Reports	Nathaniel Knowles

OFFICE OF THE SPECIAL REPRESENTATIVE, PARIS

U. S. Special Representative in Europe	W. Averell Harriman
Deputy Special Representative	William C. Foster
Political Adviser	Philip Bonsal
Special Assistant to the Special Representative	Col. C. H. Bonesteel
Special Assistant for East-West Trades	J. M. McDaniel, Jr.
Labor Information Adviser to the Special Representative	Harry L. Martin
Personal Assistant to the Special Representative	Ambrose E. Chambers
Special Assistant to the Deputy Special Representative	John L. Tappin
General Counsel	Milton Katz
Controller	George F. Brewer
Executive Assistant	Leland Barrows
Director, Information Division	Alfred Friendly
Director, Program Review and Recovery Progress Division	Henry B. Arthur (Acting)
Director, Trade & Payments Division	George A. Blowers (Acting)
Director, Finance Division	Arthur W. Marget
Director, Food & Agriculture Division	Ben H. Thibodeaux
Director, Industry Division	George W. Perkins
Director, Labor Division	Boris Shishkin

MISSIONS IN PARTICIPATING COUNTRIES

ECA Special Mission to Austria

Chief of Mission	Clyde N. King
Controller	Robert Dewey Pittman
Information Officer	John B. Wilson
Labor Adviser	Wesley Cook

ECA Special Mission to Belgium-Luxemburg

Chief of Mission	James G. Blaine
Program Review Officer	John L. Haynes
Trade & Industry Officer	Eric L. F. Archdeacon
Information Officer	John H. Tobler
Labor Adviser	Albert L. Wegener

ECA Special Mission to Western Germany

Chief of Mission	Averell W. Harriman
Deputy Chief of Mission	N. H. Collisson
Assistant Chief	Leo P. Nemzek
Controller	Leon E. Smith
Information Officer	Walter T. Ridder

The ECA is represented in the French Zone of occupation of Germany by Hector C. Prud'homme of the Department of State.

ECA Special Mission to Denmark

Chief of Mission	Charles A. Marshall
Program Review Officer	J. B. Lindeman
Finance Officer	Evan B. Hannay
Controller	William M. McDermott
Labor Adviser	John E. Gross

ECA Special Mission to France

Chief of Mission	David K. E. Bruce
Executive Officer	W. Lane Rehm
Controller	Andrew F. Patterson
Information Officer	John L. Brown
Chief, Office of Program Review	Robert J. Myers
Chief, Finance Division	William M. Tomlinson
Chief, Food & Agriculture Division	Kenneth J. Nicholson
Chief, Industry Division	William E. Mitchell
Chief, Labor & Manpower Division	Michael S. Harris
Labor Information Specialist	Richard Kelly

ECA Special Mission to Greece

Chief of Mission	John Nuveen, Jr.
Deputy Chief	John B. Blandford
Deputy for Operations	K. R. Iverson
Director of Finance	Spencer Phenix

Director, Industry Division	George J. Gillies, Jr.
Director, Trade Division	Philip F. Maguire, Jr.
Director, Food & Agriculture Division	Paul A. Jenkins
Director, Labor & Manpower Division	D. Allen Strachan
Deputy Director, Labor & Manpower Division	Joseph Heath
Labor Information Specialist	Thomas E. Frayne
Transportation Adviser	James Glynn
Distribution Adviser	C. B. Jones
Public Welfare Adviser	Russell Drake
Public Health Adviser	Dr. O. F. Hedley
Acting Construction Adviser	DeForest McCauley
Public Relations Officer	Dowsley Clark
Director, Field Services Division	George White
Government Organization Adviser	John O. Walker
Program Review Officer	Helene Granby
Controller	Richard L. Johnson

ECA Special Mission to Iceland

The ECA is represented in Iceland by Richard P. Butrick, Minister to Iceland.

ECA Special Mission to Ireland

Chief of Mission	Joseph E. Carrigan
Program Review Officer	Paul J. Findlen

ECA Special Mission to Italy

Chief of Mission	James D. Zellerbach
Executive Officer	Dominic J. Marcello
Controller	James Botwin
Chief, Information Division	Andrew H. Berding
Acting Labor Adviser	Tom Lane
Labor Information Specialist	James H. Toughill
Chief, Office of Program Review	Vincent M. Barnett, Jr.
Chief, Food & Agriculture Division	Harry McClelland
Reclamation Specialist	William E. Corfitzen

ECA Special Mission to The Netherlands

Chief of Mission	Alan Valentine
Executive Officer	John H. Humpstone
Information Officer	Julian Street, Jr.
Program Review Officer	Victor M. Longstreet
Industry Officer	Alexander S. Keller
Labor Adviser	Lee R. Smith

ECA Special Mission to Norway

Chief of Mission	Augustus E. Staley, Jr.
Program Review Officer	John D. East
Finance Officer	Alice E. Bourneuf
Information Officer	Nedville E. Nordness
Controller	Gunnar A. Spangberg
Labor Adviser	John E. Gross

ECA Special Mission to Portugal

Chief of Mission	David L. Patten

ECA Special Mission to Sweden

Chief of Mission	John H. F. Haskell
Executive Assistant	Stephen C. Reynolds, Jr.
Information Officer	C. Brooks Peters
Program Review Officer	Edwin G. Arnold
Industry Officer	Samuel S. Auchincloss
Labor Adviser	Victor J. Sjaholm

ECA Special Mission to Switzerland

The ECA is represented in Switzerland by John Carter Vincent, Minister to Switzerland.

ECA Special Mission to Trieste

Chief of Mission	Robert E. Galloway
Assistant Chief of Mission	Joseph J. Caputa

ECA Special Mission to Turkey

Chief of Mission	Russell H. Dorr

ECA Special Mission to the United Kingdom

Chief of Mission	Thomas K. Finletter
Deputy Chief of Mission	Henry Siegbert
Executive Officer	Frank L. King
Chief, Information Division	Thomas W. Wilson, Jr.
Chief, Import Requirements Division	Richard S. McCaffery, Jr.
Chief, Trade Division	Abbott L. Moffat
Chief, Food & Agriculture Division	E. N. Holmgreen
Chief, Industrial Division	Tremper Longman
Chief, Labor Division	James S. Killen
Labor Information Specialist	G. Warren Morgan
Chief, Program Review Division	John M. Cassels
Controller	Alexander Ward

CHAPTER VI

Communist Opposition to the ERP

The magnitude of the Communist effort to obstruct the ERP is a tribute to the significance of the ERP for the survival of political and individual freedoms and the revival of economic strength in Europe. And the vigorous reaction of democratic parties and groups against the Communist attacks is a heartening indication that the ERP will succeed.

Secretary of State Marshall in his Harvard speech stated, "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. . . ." He held out the promise of our aid to all of the countries of Europe that would cooperate in the achievement of economic recovery.

A. COMMUNIST AIMS AND INTENTIONS.

The first reaction of the Soviet press to Secretary Marshall's Harvard speech on June 5, 1947, was to attack it as "an addition to the Truman Doctrine." A few days later, the Soviet Government accepted an invitation to join France and the United Kingdom in a conference on the European reconstruction in Paris on June 27. There the USSR representatives asked that the various national estimates of needs be added together and presented to the United States as Europe's requirements for assistance, without provision for the cooperative European effort which was one of the basic assumptions of the original American proposal. The British and French Foreign Ministers, however, insisted on approaching the determination of the needs and resources of Europe on a cooperative basis of mutual aid, in the spirit of Secretary Marshall's suggestion. On July 2, Soviet Foreign Minister Molotov withdrew from the conference, warning of "consequences" which, he claimed, would split Europe in two.

The "consequences" were not long in developing. Czechoslovakia had agreed on July 4 to send an observer to future meetings in Paris on the Marshall Plan. But after the Czechoslovak Premier was summoned to Moscow, Czechoslovakia declined to participate, as did other Eastern European states, which had initially shown an interest in the Marshall Plan.

Ever since the Communists have deliberately attacked and sought to undermine the ERP. Their two principal instruments within the participating countries have been the propagandists directed by the Cominform, and Communist labor leaders who have tried to control organized labor in Europe and to turn labor against the Marshall Plan. They have systematically misrepresented and distorted the objectives and methods of the ERP, but their true aims can be clearly seen from their own statements. In the light of these, their course of attack in propaganda and in the field of labor can be easily traced.

A propaganda campaign originating in the USSR, and amplified by local Communist organizations throughout Western Europe, sought to confuse the issues and to define them in terms unfavorable to Secretary Marshall's proposal. The Communists denied that the ERP presented an opportunity to choose between recovery and economic collapse. Their propaganda was aimed to arouse suspicion, fear, uncertainty and dissension among the Western European states. French fear of an industrially strong Germany, Britain's economic losses, Scandinavian apprehension of involvement—every possible theme was exploited to serve the Communist purpose and all the media of Communist propaganda were used to attack American "imperialism." The objective, clearly, was to prevent development of any form of economic cooperation which might strengthen democratic Europe and, by preventing economic recovery, to create the conditions of chaos and misery in which communism thrives.

1. Organization of the Cominform.

On October 5, 1947, an official communique was issued by representatives of the Central Committees of nine European Communist Parties—those of the Soviet Union, Yugoslavia, Bulgaria, Rumania, Hungary, Poland, France, Czechoslovakia, and Italy. The communique summarized the action taken by an International Communist conference held in Poland during the month of September, 1947. The conference, according to the communique, decided "to create an Information Bureau" (Cominform) made up of "representatives of the Central Committees of the above-mentioned parties" whose tasks would "consist in the organization of an exchange of experience between parties and, in case of necessity, in coordination of their activity on the basis of mutual agreement." The new Information Bureau was to be established at Belgrade, Yugoslavia, where its official newspaper would be published and its editorial board would reside.

An accompanying resolution and manifesto provided a prospectus for this new agency of international Communism. The resolution declared that "the absence of connections between Communist Parties . . . is a serious shortcoming . . . The requirement for an exchange of experience and voluntary coordination of actions of the separate parties has become particularly necessary now in conditions of the complicated post-war international situation."

The manifesto elaborated the "complicated post-war international situation" and the political basis for the new Cominform in these terms: The wartime unity of the Allies had been sundered because of divergent aims of the former partners and two camps had emerged—"the camp of imperialism and anti-democratic forces" led by the United States and an "anti-imperialistic democratic camp" led by the Soviet Union. "The imperialistic camp and its directing force, the United States of America," said the manifesto, "show a growing aggressive activity. This activity evolved at the same time in all spheres—in the sphere of military and strategic activities, economic expansion and ideological warfare. The Truman-Marshall Plan is only a farce, a European branch of the general world plan of political expansion being realized by the United States of America in all parts of the world.''

To counter ''imperialistic plans of aggression,'' the manifesto alleged, ''the anti-imperialistic camp has to close its ranks and draw up and agree on a common platform to work out its tactics against the chief force of the imperialist camp, against American imperialism, against its English and French allies, against the Right-Wing Socialists, above all, in England and France . . . The Communist Parties must grasp in their hands the banner of national independence and sovereignty in their own countries . . . fight against attempts at the economic and political subjugation of their countries. As the appeasement policy of Munich led to Hitler's aggression, today concessions to the United States of America and the imperialist camp may cause its instigators to grow even more shameless and aggressive. In consequence, the Communist Parties should place themselves in the vanguard of opposition . . . in the sphere of state administration, politics, economics, or ideology. . . .''

It is clear that the fight against the Marshall Plan and European reconstruction was given the Cominform's top priority.

2. Development of Propaganda.

Soviet Politburo representative Andre Zhdanov, in a report on the international situation before the International Conference which set up the Cominform, presented the main theme of the Soviet attack of falsification and distortion against the Marshall Plan:

(1) ''American economic 'assistance' pursues the broad aim of bringing Europe into bondage to American capital. The more drastic the economic situation of a country is, the harsher are the terms which the American monopolies endeavor to dictate to it. . . .''

(2) ''American 'assistance' automatically involves a change in the policy of the country to which it is rendered: parties and individuals come to power that are prepared, on directions from Washington, to carry out a program of home and foreign policy suitable to the United States.''

(3) ''The cornerstone of the Marshall Plan is the restoration of the industrial areas of Western Germany controlled by the American monopolies . . . to render aid in the first place . . . to the German capitalists.''

(4) ''The Marshall Plan envisages the ultimate reduction of Britain and France to the status of second-rate powers.''

(5) The invitation to the Soviet Union to participate in the Marshall Plan ''was taken in order to mask the hostile nature of the proposals with respect to the USSR . . . to lure the countries of East and Southeast Europe into the trap of economic restoration of Europe with American assistance.''

(6) "The Marshall Plan would . . . restore the power of imperialism in the countries of the new democracy and compel them to renounce close economic and political cooperation with the Soviet Union."

(7) "The Marshall Plan strikes at the industrialization of the democratic countries of Europe, and hence at the foundations of their integrity and independence."

(8) "Foreign credits must not be the principal means of restoring a country's economy. The chief and paramount condition of a country's rehabilitation must be the utilization of its own internal forces and resources and the creation of its own industry."

(9) As opposed to the "unfair and unequal treaties" of the United States, "Treaties with the USSR are of mutual advantage to both parties and never contain anything that encroaches on the national independence and sovereignty of the contracting parties."

The Zhdanov speech emphasized that, ". . . a special task devolves on the fraternal Communist parties of France, Italy, Great Britain and other countries. . . . If the Communist parties firmly stick to their position . . . take the lead of all the forces prepared to uphold the national honor and independence, no plans for the enthralment of Europe can possibly succeed." Finally, the Soviet representative stated that "as for the USSR, it will bend every effort in order that this plan (the Marshall Plan) be doomed to failure."

Subsequent Communist pronouncements on the European Recovery Program have followed closely the main themes set by the Zhdanov speech, and developed variations. Since the creation of the Cominform, the propaganda campaign against the ERP has been carried on by large numbers of agents and used large sums of money. The Cominform can call upon the services of well-organized groups within the participating countries. Communist newspapers, overt and covert, are published in almost every ERP country. Many of those who disseminate Cominform propaganda call themselves national patriots. In most countries and in most media, the propaganda campaign is conducted with a high degree of technical skill.

B. COMMUNIST ATTEMPTS TO SET LABOR AGAINST THE ERP.

Labor, more than any other group in the European community, has been singled out by the Communists as a special target for propaganda against the ERP. This action indicates the vital role labor plays in the European recovery effort.

As one instrument in their drive to undermine labor's support for the Marshall Plan, the Communists sought to use the World Federation of Trade Unions (WFTU) as a sounding board for their propaganda against the ERP. This international labor federation had been formed early in 1945, when the atmosphere of allied unity was at its peak, by representatives of labor unions from all over the world. When in 1947 the Soviet Union announced its opposition to the Marshall Plan, Communists within the WFTU sought to prevent discussion of the recovery program against the vigorous opposition of the non-Communist trade unionists. From then on the rift between the Communist and non-communist forces within the WFTU continued to widen. In January, 1949, the representatives of the CIO, the British Trades Union Congress, and the Dutch Federation of Trade Unions withdrew from the WFTU.

In attempting to control labor and use it against the ERP, Communist plans have been adapted to meet local conditions in each country of Western Europe. When these separate Communist campaigns are examined, however, they are found to conform to a consistent pattern. The following sections present an analysis of the most important local Communist efforts to obstruct economic recovery in Western Europe and of the measures which anti-Communist trade unions and the democratic political parties have taken to counter the Communist efforts.

1. France.

Communist opposition to the ERP has been most intensive and persistent in France. It has not succeeded, in large measure because of the good sense and determination of a large part of the French labor movement, the firm actions of the French Government, and the continued flow of American aid. The Communist effort, however, has not abated.

After the liberation, the Communists gained almost complete control of the largest labor organization in the country, the General Confederation of Labor (CGT). Labor, mindful of its experience under the Vichy Government and impressed by the role of the Communists in the resistance movement after the Soviet entrance into the war, accepted the leadership of Communists who claimed to be good patriots working for national reconstruction. For more than two years the Communists played the game of cooperation in reconstruction. During this period, French workers, despite shortages of food and clothing and lack of heat in their homes, made the great effort in production which brought French industrial activity nearly up to pre-war levels. The Communist hold on labor in this period made the French Communist Party, with over a million members and some five million votes, the strongest European Communist Party outside the Soviet orbit.

In May 1947 the Communists ceased to be members of the Government for the first time since 1944. In September came the Cominform attack on the Marshall Plan. These two events transformed the French Communists from a party of ostensible cooperation in national recovery to one of avowed opposition. Although many Communist Party members, and the vast majority of those who voted for Communist political candidates, thought of themselves as good Frenchmen, the party leadership bent its efforts to the goals set by the Cominform.

a. The 1947 Strikes and Split in the CGT.

In November and December 1947 the Communist leadership of the CGT staged its first great attack on the French economy. Using the cover of understandable and not unreasonable wage demands, it led a series of strikes in basic industries which, in all but name, amounted to a general strike. As the strikes went on—in the coal mines, the railroads, the metal-working industries, the building trades, the ports, and elsewhere—the Communist leadership showed its political hand more and more openly through acts of violence and its refusal to allow democratic union procedures within the CGT. These tactics contributed to the collapse of the strikes. They also precipated a split within the CGT which resulted, in December, in the formation of a new national labor federation, the *Force Ouvrière* (Workers' Force), headed by the veteran Leon Jouhaux, who had been Secretary-General of the CGT since before the first World War. In a few months, over a million workers joined the *Force Ouvrière.* Between one and two million more quit the organized labor movement.

The new *Force Ouvrière* cooperated with the old-established French Confederation of Catholic Workers (CFTC) of almost a million members to support the recovery program. Both organizations took an active part in the formation of the ERP Trade Union Advisory Committee in March 1948 and in opening the Committee's Paris office to work directly with the OEEC.

b. The 1948 Strike Against the ERP.

The Communists had apparently weakened themselves by the 1947 strikes, in which it had been clearly demonstrated that the Communist leaders took their orders from the Cominform. During 1948, however, despite a good harvest and the high hopes placed in the continued flow of American aid, the economic position of industrial workers remained precarious. A series of drastic price rises followed the removal of price subsidies in mid-summer.

The position of the *Force Ouvrière* and CFTC became increasingly difficult. On the one hand they urged their followers to have patience and await the results of Government price stabilization efforts. On the other hand they pleaded with the Government to hold prices in line, or, if it could not do that, to allow some increase in wages. In September the Government proposed a moderate wage increase, although hardly enough to make up the recent losses in workers' purchasing power. By then the situation had become sufficiently difficult and confused to permit the Communist leadership of the CGT to attempt its second round of strikes. This broke out in October 1948. Again, as almost a year earlier, coal was a chief objective for several reasons: its importance to the whole economy, the miners' demands, and the Communist strength in mining areas.

The strike was a tribute to the rehabilitation of French industrial production. If recovery had not been going forward in France, the Communists would not have needed to incur the risks they did in October and November 1948. They openly avowed their political aims, and paid less attention than in 1947 to the camouflage of interest in the workers' problems.

The Soviet and satellite countries and Communist-led unions elsewhere openly sent financial contributions—nominally workers' voluntary offerings—to aid the French strikers. By the end of 1948, the amount of aid which the *Pravda* in Moscow reported had gone to the CGT miners' "international solidarity fund" was about 652,000,000 francs. The French Minister of the Interior reported that, in addition to these avowed transactions, other large sums were transferred secretly.

A new Communist device was the open sabotage of the mines. Never, even under the Nazi occupation, had striking miners withdrawn maintenance crews. This time the CGT called out safety and maintenance men, leaving the way open for flooding, gas seepage, and other damage to the mines. The Government had no choice but to use police and troops to protect the pits and enable non-striking miners to take over the maintenance work. Despite great restraint exercised by the Government, there were outbreaks of violence in which several miners were killed, incidents eagerly exploited by the Communist propaganda machine. Significantly, the casualty lists included almost as many police as strikers.

The coal strike was finally called off after eight weeks. It cost the French nation 5½ million tons of coal and damage to some pits requiring months to repair. Coal stocks were reduced from about 6½ to less than 3 million tons. France had to import about 2 million more tons of coal from the United States, thus using some 40 millions of scarce dollars that might otherwise have bought other goods badly needed by the French economy. Again, as in 1947, the CGT was apparently willing to sacrifice the interests of the membership for Communist political objectives. Many workers left the labor movement. Non-Communist unions also suffered and trade union strength reached a post-war low.

2. Italy.

The difficult economic situation in Italy and the large number of unemployed workers, who total almost 2 million out of a labor force of about 18.6 million, have been of continuous significance in the Italian labor situation, and in labor's relations with the Marshall Plan. Unemployment, together with a chronically low standard of living, helps to explain the Communist Party's relatively large following.

Despite its strength, the Italian Communist Party at first felt obliged to moderate its public opposition to the Marshall Plan, since the prospect of aid from America was received with enthusiasm by the overwhelming majority of the Italian people.

With the formation of the Cominform in September 1947, Communist criticism of the ERP became more vociferous. But in face of the vitally important national elections scheduled for April 1948, the Italian Communists did not dare to risk open opposition to the recovery program as a whole. Nor did they take any sharp line against two long-range moves towards recovery made by the Italian Government: the Rome Manpower Conference and the Franco-Italian Customs Union proposal.

At the beginning of 1948, however, shortly after the failure of the great wave of French strikes, the Italian Communists commenced their own strike action. Notwithstanding the precarious economic situation and the real grievances of millions of workers' families, these strikes petered out before they could develop into the threatened general strike. The workers refused to stay out under Communist leadership on what became recognized as purely political strikes, and the Italian authorities met the Communist threats of civil disorder with necessary firmness.

When the General Confederation of Italian Labor (CGIL) was invited in March 1948 to the conference of trade union representatives of ERP countries in London, the Communist majority of the CGIL Executive Committee voted against participating. But it did not attempt to forbid attendance by leaders of the minority groups within the CGIL. The London conference established the ERP Trade Union Advisory Committee and the minority groups within the CGIL have continued to be active in the work of the committee and have set up an Italian Committee along similar lines.

Against this background, the elections of April 18, 1948, took place. They were a marked victory for the Christian Democrats, the principal party in the Government, who had heartily espoused the Marshall Plan. The Communists repeatedly straddled the issue of the ERP, although their leaders were clearly anti-Marshall Plan.

In the summer of 1948 a crisis was provoked when the CGIL Communist leaders called a general strike to protest against the shooting of the Secretary-General of the Italian Communist Party, Palmiro Togliatti. Demanding the resignation of the De Gasperi Government, the strike was obviously political and non-Communist CGIL leaders were not even consulted about it. Once again the workers showed unmistakably that they would not support Communist political objectives. The strike's major accomplishment was the rupture of the CGIL. The Christian Democratic group left the CGIL and led in the formation of a new confederation, established in October as the Free General Confederation of Italian Workers (LCGIL).

The LCGIL declared itself to be a non-political labor federation open to all workers. Other non-Communist groups within the CGIL have been working with the LCGIL in support of the recovery program, but so far they have taken only partial steps toward leaving the Communist-run organization. With the lines between Communist and Democratic labor not yet clearly drawn, the CGIL still includes three-fifths to two-thirds of the organized workers of Italy. But its Communist leaders can seriously damage the Italian recovery effort only if Italian workers should believe that their Government, their employers and the ERP are not moving toward alleviation of the widespread poverty, unemployment, and the glaring differences between conditions of the rich and poor in Italy.

3. Other Participating Countries.

The Communists have made their greatest efforts to obstruct the Marshall Plan in France and Italy where Communist Party membership was largest and when the Communists controlled the great national labor federations. In the other participating countries Communists have been much weaker politically and in the trade-union movement.

The British Communist party, although not technically a Cominform member, faithfully adheres to the Cominform position on the Marshall Plan. A continuing propaganda campaign, intensified since the summer of 1948, has been directed against the policies and leadership of the Labor Government and of the Trades Union Congress (TUC), which are pictured as tools of capitalist America. The Communist Party has urged workers to withhold cooperation from the anti-inflation and national production campaigns. But, except for some unauthorized token strikes and slow-downs in which Communists have participated, they have not as yet succeeded in going beyond the stage of propaganda and infiltration.

Although Communists continue to hold some positions of influence in the trade-union movement, especially in coal mining and in the metal-working, engineering, and electrical trades, many Communists have recently been removed from union positions by the membership. The General Council of the Trades Union Congress has, during the past year, reacted vigorously to Communist agitation and has shown increasing determination to isolate the Communists, expose their tactics, and weed out the last remnants of their power.

Of the more than 9 million organized workers in the United Kingdom, the overwhelming majority, both of leaders and rank-and-file members, are devoted to democratic ideals and processes and opposed to Communist doctrines. It is highly improbable that the Communists will be able to put any effective brake on British industrial output.

In Scandinavia, Communist influence in the labor movements has shown a marked decline since the end of the war. The small Communist parties have supported the Cominform's position against the Marshall Plan, but the efforts of weak Communist minorities in the trade union field have not resulted in any serious industrial stoppage. There was one important Communist-directed strike in a fertilizer plant in Norway which, opposed by the Norwegian Federation of Labor, collapsed after six weeks when the workers involved voted to abandon the strike.

In Belgium the Belgian General Federation of Labor has eliminated the small minority of Communist representation in its Secretariat and National Bureau. Although unable to initiate strikes which would seriously obstruct recovery, the Communists have exploited economic grievances and have intensified the extent and duration of strikes conducted by Socialist-led unions.

In Greece, the main Communist effort is, of course, in the military activities of the Communist-led guerrilla bands. As the Greek Communist Party has been outlawed, it is not possible accurately to measure Communist strength among Greek workers. It is clear, however, that Communism has little attraction and, with few exceptions, Greek workers have participated loyally in the national effort for security and recovery.

In Austria the Communist Party has always been a small minority. In the 1945 elections the Communists won only 5.4 percent of the vote, and they number only 5 to 10 percent of the more than 1 million workers organized in the Austrian Federation of Trade Unions. Encouraged, however, by the proximity of their Soviet sponsors in the Russian Zone of Occupation, the small Communist minority carries on a vigorous propaganda campaign exploiting hardships imposed on Austrian workers by inflation and trying to discredit the wage-price agreements made by the Socialist and other anti-Communist labor leaders. Communist efforts to incite strikes—for example the attempt to call a general strike in mid-September 1948 over the wage-price issue—have nearly always ended in failure.

In Western Germany, by the end of 1948, the trade unions had enrolled almost 5 million members. As in the other countries of Western Europe, they had become immediate targets for Communist attempts at infiltration and control. Communist effort increased when the unions showed they would support the ERP.

The Communist drive against ERP and economic recovery has so far achieved little success through the Western German labor movement. Communists have almost no important places in the higher echelons of trade-union leadership, and their influence has declined in many local labor organizations. But they have been able to win some victories—and they remain potentially very dangerous—on the local or plant level.

The labor organizations of Western Germany have made their support of the ERP unmistakably clear. This policy reduced the influence of the Communists who were forced by the Cominform doctrine to take a stand against economic recovery. The Communists decided openly to challenge the other western political parties, denouncing them as "Quislings" of the Western occupation powers, "agents of foreign imperialism" and "splitters of German unity." This is the general Cominform-type attack, with special variations for their German unity and anti-occupation themes.

These tactics have brought the Communists to the point where they are no longer represented in any state government in Western Germany; they have either withdrawn voluntarily, or been forced out of the last few posts they held. They still have legislative representation, but their departure from the state governments has forced them to lay stress on activity in the labor movement. They will continue to present a great potential problem, as will the ultra-nationalists, as long as German workers are beset by rising prices and black markets.

C. EASTERN EUROPEAN COUNCIL FOR ECONOMIC MUTUAL AID.

The formation of an Eastern European Council for Economic Mutual Aid was announced in Moscow on January 25. The purpose appears to be to implement at the governmental level, and in the economic field, the purposes for which the Cominform was organized in the fall of 1947,—that is, to oppose the Marshall Plan and consolidate Soviet power over the satellites. In the absence of any information other than the text of the announcement, it is not possible to predict how the council will operate. It undoubtedly serves a propaganda purpose, as a counter to the Marshall Plan, in being made to appear as a step in the development of the so-called "Molotov Plan." In general, however, its principal utility would appear to be as an instrument for consolidating Soviet economic power over the satellites rather than as an instrument for attacking the operations of the Marshall Plan.

CHAPTER VII

Special Topics

A. PARTICIPATING COUNTRY PLEDGES.

1. Convention for European Economic Cooperation.

With the signing of the Convention for European Economic Cooperation on April 16, 1948, the sixteen nations associated in the Committee of European Economic Cooperation (CEEC), together with representatives of the zones of occupation of Western Germany, took a major step towards implementing the pledge of cooperative effort embodied in the General Report of the CEEC on September 22, 1947.

This pledge was of fundamental importance to the United States in its decision to extend American aid to these participating countries. Thus the Economic Cooperation Act states (in Sec. 115 b): "The provision of assistance under this title results from the multilateral pledges of the participating countries to use all their efforts to accomplish a joint recovery program based upon self-help and mutual cooperation as embodied in the [CEEC] report . . . , and is contingent upon continuous effort of the participating countries to accomplish a joint recovery program through multilateral undertakings and the establishment of a continuing organization for this purpose."

The parties to the Convention for European Economic Cooperation resolved, in the Convention Preamble, to implement the principles and achieve the aims set forth in the Report of the CEEC, "particularly the speedy establishment of sound economic conditions enabling the Contracting Parties as soon as possible to achieve and maintain a satisfactory level of economic activity without extraordinary outside assistance, and to make their full contribution to world economic stability"; and resolved further "to create the conditions and establish the institutions necessary for the success of European economic cooperation and for the effective use of American aid," without which these aims could not be fully achieved.

The countries agreed to work in close economic cooperation and as their immediate task to undertake the elaboration and execution of a joint recovery program. Accordingly, they pledged themselves to carry out, by their efforts of self-help and in a spirit of mutual aid, certain general obligations: the development of production through efficient use of available resources; the drawing up and fulfillment of general programs for the production and exchange of commodities and services; the maximum possible interchange of goods and services through continued efforts to achieve a multilateral system of payments and relaxation of restrictions on trade and payments; the continued study and establishment of customs unions or analogous arrangements; the reduction of tariff and other barriers to trade expansion; the achievement and maintenance of currency and internal financial stability and sound exchange rates; and the fullest and most effective use of available manpower.

Finally, the contracting parties set up the Organization for European Economic Cooperation (OEEC), whose aim is "the achievement of a sound European economy through the economic cooperation of its members," with an immediate task of ensuring the success of the European Recovery Program. The OEEC and some of its accomplishments during the first nine months of its existence are discussed in *Chapter II* above.

2. The Bilateral Agreements.

In addition to continued mutual cooperation of the participating countries, the Economic Cooperation Act specified as conditions of United States aid certain undertakings on the part of each country. These undertakings were embodied in bilateral agreements between the United States and the participating countries, the most important provisions of which are summarized in the following paragraphs. The agreements are substantially similar in their basic provisions but certain variations reflect conditions which are peculiar to individual countries.

a. Major Provisions of Bilateral Agreements.

The Preamble sets forth the principles on which the recovery program is based. Foremost among these is the proposition that European recovery calls for a "plan of self-help and mutual cooperation, open to all nations which cooperate in such a plan, based upon a strong production effort, the expansion of foreign trade, the creation or maintenance of internal financial stability and the development of economic cooperation. . . ."

Article I provides for assistance to be furnished by the Government of the United States subject to the terms of the agreement and of United States legislation, and an undertaking by the government of the participating country to exert sustained efforts to achieve recovery through joint action with other nations as quickly as possible.

Article II contains general undertakings, including agreement by the country concerned to utilize its resources efficiently; to promote types of production essential to the recovery program; to take measures to achieve financial stability; and to cooperate in stimulating trade and reducing trade barriers, and in eliminating restrictive trade practices.

Article III deals with guaranties of currency transfer. Under this provision the two signatory governments agree to consult with regard to projects in the participating country, proposed by nationals of the United States, and respecting which the Administrator may make guaranty of currency transfer under Section III (b) (3) of the Economic Cooperation Act. They further agree that local currency acquired by the United States Government in connection with the discharge of liability under such guaranty shall become the property of the United States Government. *(See below, Section I, Guaranties.)*

Article IV provides for the establishment of counterpart funds of local currency by the government of a participating country in amounts commensurate with the dollar cost to the United States Government of assistance furnished on a grant basis under the program. This article also provides that the United States Government may defray the local-currency administrative expenses of the program within the country concerned from this special account. In addition, 5 percent of the funds in the special account, less any sums made available to the United States for administrative expenses in connection with the program, is to be allocated to the general use of the United States Government including use for the purchase of materials of which the United States faces a deficiency. Finally, this article provides that balances in the special account may be drawn upon by the government of the participating country for such recovery purposes as may be agreed to from time to time with the Government of the United States. This article has been omitted from the agreements with Portugal, Turkey and Sweden since it was not contemplated that these countries would receive any grant assistance. *(See below, Section B, Local-Currency Counterpart Funds.)*

In Article V, the participating country undertakes "such specific measures as may be necessary" to facilitate the transfer to the United States of materials in which the United States is or may become deficient and to promote increased production of such materials within the country and its overseas possessions. The participating country further agrees, upon request, to negotiate schedules of minimum availabilities for future purchase and delivery of such materials to the United States. Arrangements for protection of the right of access of United States nationals and schedule of increased production to be transferred to the United States on a long-term basis. *(See below, Section O, Strategic Materials.)*

Article VI provides that the participating country will cooperate with the Government of the United States in encouraging the promotion of travel by United States citizens to and within the participating countries, and will negotiate with the United States, upon request, for arrangements to facilitate the entry of relief packages and relief goods sent by United States voluntary non-profit relief agencies. *(See below, Section F, Voluntary Relief Supplies, and Section E, Promotion of Travel.)*

In other articles the participating country agrees to furnish appropriate information to the United States; to give full publicity to the objectives and progress of the recovery program. *(See below, Section G, Information Program);* and to cooperate with, and grant appropriate privileges to, the Special ECA Mission.

The articles listed above embody the more important bilateral pledges of the participating countries. They contain the principal safeguards imposed, and the undertakings required, by the Congress. Experience under these clauses of the agreements has not revealed any serious defects in the bilateral agreements. The chief problems encountered thus far have arisen rather out of the varied and complex problems inherent in the achievement of European recovery.

At the end of each of the agreements there is appended an annex containing interpretative notes which amplify and define the meaning of certain terms and phrases embodied in the agreements. In connection with the conclusion of the agreements, notes were exchanged between the United States and each of the signatory countries, except Trieste, under which each participating country agreed to accord most favored nation treatment, on the basis of reciprocity, to the trade of certain areas under American military occupation.

b. Signature of Agreements.

By the end of July 1948 sixteen participating countries, including the Bizone and French Zone of Occupation in Germany, had concluded bilateral agreements. The agreement with Portugal was signed September 28, 1948, and with the United States-United Kingdom Zone of the Free Territory of Trieste on October 15, 1948. The countries with which agreements have been concluded and the dates thereof are as follows:

Countries with which Bilateral Agreements Have Been Concluded

Country	*Date of Signature*	*Effective Date*
Austria	July 2, 1948	July 2, 1948
Belgium	July 2, 1948	July 29, 1948
Bizone of Germany	July 14, 1948	July 14, 1948
Denmark	June 29, 1948	July 2, 1948
France	June 28, 1948	July 10, 1948
French Zone of Germany	July 9, 1948	July 9, 1948
Greece	July 2, 1948	July 3, 1948
Iceland	July 3, 1948	July 3, 1948
Ireland	June 28, 1948	July 2, 1948
Italy	June 28, 1948	June 28, 1948
Luxemburg	July 3, 1948	July 3, 1948
Netherlands	July 2, 1948	July 2, 1948
Norway	July 3, 1948	July 3, 1948
Portugal	Sept. 28, 1948	Sept. 28, 1948
Sweden	July 3, 1948	July 21, 1948
Trieste (U.S.-U.K. Zone)	Oct. 15, 1948	Oct. 15, 1948
Turkey	July 4, 1948	July 13, 1948
United Kingdom	July 6, 1948	July 6, 1948

Switzerland has not received financial assistance and has not concluded a bilateral agreement, even though a member of the OEEC.

Since the conclusion of the bilateral agreements, there have been a few supplemental agreements and exchanges of notes between the United States and some of the participating countries relating to matters embodied in the bilaterals. Such subsequent agreements include letters exchanged between the United States and Italy, the United Kingdom, and the Bizone of Germany, providing for free entry and free transportation of specified relief items and packages. In the case of France, a formal agreement was entered into, in lieu of an exchange of letters. Similar agreements are now being negotiated between the United States and The Netherlands, Belgium, Greece, Trieste, and Austria. *(See below, Section F, Voluntary Relief Supplies.)*

Notes have been exchanged between the United States and the governments of the participating countries which entered into the

Agreement for Intra-European Payments and Compensation of 16 October 1948. These notes provide for the deposit by such countries of local currency in the special local-currency accounts in connection with their utilization of drawing rights under the Intra-European Payments Plan. *(See above, Chapter II-C, Intra-European Payments.)*

B. LOCAL-CURRENCY COUNTERPART FUNDS.

The source of legal authority for, and the main features of, the administration of local-currency counterpart funds are set forth in the ECA legislation. Countries receiving commodities and services financed by ECA grants are required (a requirement which is formally accepted by the participating countries in their bilateral agreements with the United States) to deposit commensurate amounts of local currency in special accounts.

Five percent of the local currency thus deposited is allocated to the use of the United States. The 95 percent balance is held or used in the participating country pursuant to agreement between the participating country and the Administrator. The purposes for which the funds are used include internal monetary and financial stabilization, the stimulation of productive activity, the exploration for, and development of, new sources of wealth, and other expenditures consistent with the purposes of the Economic Cooperation Act. Any unencumbered balance remaining in a special local-currency account on June 30, 1952, will be disposed of within the participating country for such purposes as may be agreed to between that country and the Government of the United States, subject to approval by the Congress.

1. Objectives in the Use of Funds.

In general, proposals for expenditure of the 95 percent balance of the counterpart funds are first discussed by the participating government with the Special ECA Mission in the country. The recommendations of the mission are reviewed by the Office of the Special Representative and the ECA in Washington. Proposals for action by the ECA are discussed with appropriate agencies of the United States Government and on policy matters the advice of the National Advisory Council is requested. In accordance with the Statute, the Administrator consults with the Public Advisory Board at its monthly meetings regarding the administration of the local currency counterpart funds.

Utilization of the unencumbered portions of any deposits of local currencies made by participating countries pursuant to the provisions of the joint resolution providing for relief assistance to the people of countries devastated by war (section 6, PL 84, Eightieth Congress) and the provisions of the Foreign Aid Act of 1947 (section 5(b), PL 389, Eightieth Congress) is also subject to agreement reached in the same way as agreement with respect to the utilization of the 95 percent balance of the funds deposited pursuant to the provisions of the Economic Cooperation Act.

The internal monetary and financial situation in a participating country is a basic factor in the determination of the purposes for which counterpart funds should be expended or the extent to which they should be withheld from expenditure. Appropriate management of the local currency funds can help to establish the internal financial stability which is a prerequisite to the accomplishment of the aims of the ERP.

The payment for ECA commodities provided by way of grant and imported and sold within a participating country is a counter-inflationary factor, the effect of which is maintained so long as the funds remain in the special local currency account or are used for retirement of government debt held by the bank of issue. Expenditure of the funds for investment purposes, however, acts in most cases as an offset to the counter-inflationary influence. Consequently, in countries where an inflationary condition exists, releases of counterpart funds for productive purposes have been made only in conjunction with steps directed toward achieving and maintaining internal monetary and financial stability. At the same time, it is recognized that sterilization of counterpart funds through non-use is not a substitute for the more fundamental fiscal measures which may be required to achieve lasting stability.

Subject to these considerations, utilization of local-currency counterpart funds is directed toward the stimulation of productive activity and the exploration for, and development of, new sources of wealth in order to achieve the maximum recovery in the participating country. In some countries the lack of private capital available through investment channels for increasing the productive capacity of industry and agriculture makes especially desirable the use of counterpart funds for that purpose.

2. Use of Funds, Country by Country.

Agreed proposals for use of the 95 percent portion of the local-currency counterpart funds in the principal countries receiving ECA grants are discussed in the following paragraphs. In each case there is given the aggregate authorized releases of funds, divided among general categories of utilization. Belgium has not received any assistance on a grant basis since July 1, 1948; deposit in Belgian francs of the local-currency counterpart of the small first-quarter grant does not materially affect the Belgian financial situation. In Iceland, Ireland, Sweden, and Turkey there is no requirement for the deposit of counterpart, since no assistance to these countries has been provided on a grant basis. No ECA financial assistance has yet been extended to Portugal or Switzerland. Although there are special local-currency accounts in Denmark, The Netherlands, and Western Germany (the Bizone and the French Zone), no releases have been authorized.

a. Austria.

Release of counterpart funds authorized through December 31, 1948:

	(Millions of schillings)	(Approximate millions of dollars)
Investment	338.1	33.8
Debt cancellation	850.0	85.0
Total	1188.1	118.8

The principal measures needed to maintain internal financial stability in Austria appear to be some reduction in spending by the Government particularly under the extraordinary budget and further increases in production to close an inflationary gap. These measures can be realized only gradually and through the continued vigilance of the Austrian Government and the National Bank.

War and its aftermath have largely eliminated savings available for investment in the Austrian economy. In view of this lack, the expenditure of 338.1 million schillings of counterpart funds has been approved for productive investments in the Extraordinary Federal Budget for 1948, largely for the reconstruction of the railways. The National Bank is prepared to assist in financing, through ordinary banking channels, additional investments included in the Austrian reconstruction plan. Counterpart totaling 850 million schillings was used to cancel a portion of the debt of the government held by the National Bank. This debt cancellation will improve the position of the National Bank and is part of the program to strengthen the currency.

b. France.

Release of counterpart funds authorized through December 31, 1948:

	(Billions of francs)	(Approximate millions of dollars)
Investments	105.0	457
Development of resources	10.0	41
Debt retirement	25.0	103
Total	140.0	601

Since liberation, the economy of France has been characterized by a sharp inflationary trend attributable in substantial measure to a disequilibrium in the French public accounts resulting from heavy investment expenditures undertaken by the French Government at a time when adequate savings in the ordinary forms and tax receipts were unavailable.

To strike a balance between investment and stability requirements, the French Government with ECA approval proposes to use counterpart funds for both investment purposes and the effective reduction of public debt, at the same time initiating measures to attain economic and financial stabilization.

Of the total of 140 billion francs in counterpart funds that were authorized for use in 1948, 105 billion were allocated for investment in the reconstruction, expansion, and modernization of industry and agriculture. Investment allocations included 51.3 billion francs for power plants and power distributing facilities, 19.9 billion francs for railroad reconstruction, and 20.3 billion francs for coal mining. Ten billion francs are earmarked for the development of resources in the French Union with particular regard to commodities in which U.S. resources are deficient or potentially deficient.

The remaining 25 of the 140 billion francs have been used to repay Bank of France advances to the government, and thereby to reduce the level of the government debt.

In conjunction with these releases, France has adopted a series of fiscal and other reforms to promote financial stability. During the first six months of 1948, it imposed a capital-levy loan and temporarily contracted the amount of money in circulation through the withdrawal of 5000-franc notes. After the political interregnum of the summer, a new round of reforms was launched which included increases of certain tax rates, the speeding up of tax collections, submission to the Assembly of a bill providing for reform of the tax system, improvements in the administration of nationalized industries, and the imposition of quantitative as well as qualitative controls on credit—a new departure in French financial policy. The ceiling on Bank of France advances to the State was reduced, for the first time in many years.

ECA will continue to advocate a counterpart policy that will help the French Government to carry out desirable investments at a rate consistent with maintenance of financial stability. It will be guided in doing so by the continuing French efforts to restore confidence in the franc and to increase industrial and agricultural production.

c. Greece.

Release of counterpart funds authorized through December 31, 1948:

	(Billions of drachmae)	(Approximate millions of dollars)
Care and rehabilitation of refugees	500	50
Capital equipment imports	200	20
Reconstruction and rehabilitation of industry and agriculture	342	34
Total	1042	104

Disruption resulting from the civil war has dominated the Greek economic situation. The budget is badly unbalanced owing to heavy military, refugee and other extraordinary expenditures. Constant inflationary pressure has in turn limited the scope of reconstruction and developmental expenditures.

In view of this situation, counterpart releases have been directed toward:

(1) Avoidance of further inflation by withholding counterpart funds whenever their expenditure would be inconsistent with stability of incomes and prices.
(2) Relief for the government budget from the heavy burden of supporting refugees from the guerrilla-stricken areas.
(3) Rehabilitation and reconstruction of capital installations and equipment whenever feasible, including the internal financing of the import of capital equipment.

Reconstruction work, financed out of the drachma counterpart fund, has proceeded on war-damaged ports, highways and railroads, with resulting improvements in transportation and handling of goods and in the reduction of transportation costs. The release of counterpart funds, particularly for the reconstruction program, has been scheduled so as to minimize the instability of drachma incomes and prices. If at any time signs of excessive inflation should appear, scheduled releases can be postponed or discontinued.

d. Italy.

Release of counterpart funds authorized through December 31, 1948:

	(Billions of lire)	(Approximate millions of dollars)
Industries (including transport)	130	226
Agriculture	90	156
Public works (including housing)	55	96
Merchant marine	19	33
Tourism	8	14
Total	302	525

ECA activity began in Italy some six months after drastic measures had been instituted to halt a continuing post-war inflation. Almost immediately, the Italian Government requested the Administrator to approve the release of 52 billion lire of counterpart deposited under the Interim Aid Program, for the reconstruction of rail facilities, agricultural rehabilitation, and ship reconditioning. Conditions appeared favorable for an expansion of the economy and the release was authorized. Since the spring of 1948, the Italian economy has been undergoing a slow recovery; exports have increased sharply, and the lira-dollar exchange rate has been stable at approximately 575 lire to the dollar.

Two general objectives important to Italian recovery are restoration of industrial activity and the formation of new capital. In order to accomplish these on a non-inflationary basis, it is recognized that simultaneous measures should be undertaken for reorganization of the tax system, elimination of subsidies, and revision of the State social security and unemployment administration to ease the direct burden on industry. The Italian Government has prepared a program of counterpart expenditure, additional to the 52 billion lire referred to above, amounting to 250 billion lire for industrial and agricultural reconstruction under which actual expenditures of counterpart funds may be made for approved specific projects.

e. Norway.

Release of counterpart funds authorized through January 7, 1949:

	(Millions of kroner)	(Approximate millions of dollars)
Debt cancellation	110	22.2

A prominent characteristic of the Norwegian economy since the war has been suppressed inflation. During the German occupation the greater part of the expenditures of the occupying forces were covered by advances from the Bank of Norway which were authorized by the Quisling Government. This resulted in a large increase in monetary circulation and since liberation the inflationary pressure has been contained only by rigid and extensive price controls, rationing, heavy taxes, and subsidies. Currently, taxes absorb nearly one-third of the national income.

In order to permit a gradual return to a free economy by reduction of controls and to maintain at the same time financial stability, it will be necessary to eliminate the excess portion of the monetary supply. As indicated by the heavy current tax burden and the surplus of the budget, Norwegian authorities are pursuing the policy of reducing this excess. The use of 110 million kroner of counterpart funds has been authorized for reducing the "Occupation Account" held by the Bank of Norway.

f. Trieste.

Release of counterpart funds authorized through January 10, 1949:

	(Billions of lire)	(Approximate millions of dollars)
Industrial reconstruction	2.9	5.0
Loan to shipping companies	4.5	7.8
Total	7.4	12.8

In Trieste, AMG has worked out a basic economic recovery program which contemplates fuller utilization of existing production facilities and unemployed labor skills and a progressive reduction of the large budget deficit.

To assist in carrying out this program, the ECA has approved the release of 7.4 billion lire of counterpart for reconstruction and rehabilitation of shipbuilding, ship repair, and refining and processing facilities during the first year of the program.

g. United Kingdom.

Release of counterpart funds authorized through December 31, 1948:

	(Millions of pounds)	(Approximate millions of dollars)
Debt cancellation	82.1	330.9

During 1948 the release of a total of 82.1 million pounds sterling of counterpart funds has been authorized for effective reduction of the internal debt in the United Kingdom. This action was taken in furtherance of the British Government's policy of retiring debt through every means available and in conjunction with the Government's stabilization measures.

C. TECHNICAL ASSISTANCE.

An important form of American aid to promote European recovery is the furnishing of technical assistance. Under the Economic Cooperation Act, information and data on United States methods and techniques can be made available to the participating countries. American aid may also be given to stimulate the exchange of available techniques and expert services between participating countries. The fields covered by technical assistance include industrial technology and production methods, scientific developments in agriculture, labor relations, business management methods, marketing, statistics and public administration.

In general, the aim of technical assistance is to enable the participating countries to achieve more effective results from the use of their own resources and ECA-financed goods and services. The program is necessarily short-range in nature. It is of utmost importance in increasing industrial and agricultural productivity which is essential to European recovery.

Technical assistance may be furnished by sending expert consultants to Europe; by bringing European representatives to this country to study United States methods; by an exchange of experts between participating countries; and by the distribution of technical literature, special studies and surveys. A substantial part of the cost of these joint undertakings is paid by the participating countries in their own currencies. On the basis of the ECA's experience in this field, it is believed that in many cases calling for closely integrated efforts of the United States and one or more participating countries, more effective results would be achieved if the requirement of the deposit of local currency equivalent to the technical assistance rendered by the United States could be waived by the Administrator.

1. The Anglo-American Council on Productivity.

In the fall of 1948, on the initiative of Sir Stafford Cripps and the Administrator, the Anglo-American Council on Productivity was created to consider an exchange of technical knowledge and methods and, in particular, to consider ways in which United States industry could cooperatively assist British efforts to increase industrial productivity. The Council recognized that greater mechanization—increasing the amount of energy available to each worker—is one of the most important factors in expanding industrial productivity, but that substantial gains in power and tools will take considerable time. Improvement in productivity for the short term must be brought about in large measure through improved management practices and more effective use of manpower and existing facilities.

The Council, which held its first meeting in London late in October, organized five working committees: on plant visits and exchange of production techniques; maintenance of productive plant and power; productivity measurements; specialization in industrial production; and economic information.

Under the program of the first committee, "British Productivity Teams" will visit factories in the United States to exchange experience and learn United States methods. These teams will consist of about 15 workers from all stages of production, including managers, technical specialists, bench workers, shop stewards, and others. Arrangements are also being made for consultants from American industry to visit selected areas of British industry and suggest possible improvements in production techniques.

The program of the other Anglo-American Council committees will, for the most part, be carried out by the British members supplemented by information and advice from the American members. Where dollars are required they will be supplied from ECA funds, but much of the expense will be met with sterling contributed by the United Kingdom government and industry.

2. Other Assistance in Industrial Productivity.

The participating countries are endeavoring to increase productivity through technical improvements. At the request of the French Government, the ECA has financed a study of industrial productivity in France which covered 125 manufacturing plants in 19 industries. The findings indicated that a substantial increase in productivity could be obtained, even with existing production equipment, by improving plant organization and manufacturing methods. Somewhat similar plans to explore the possibility of raising industrial productivity in other participating countries, with the help of industrialists and trade-union representatives, are currently being worked out. Teams from several countries, representing many different industries, will come to the United States to study American techniques and operating methods.

A comprehensive plan for technical assistance of a widely varied nature has been developed in connection with the Greek program. American experts have been attached to the ECA Mission in Greece at the request of the Greek Government to advise on matters aimed at expanding Greek industries, improving their methods, and accelerating production. These experts consult on problems in such fields as mining, metallurgy, fertilizer production, textile design and production, water and rail transportation, communications, milling, warehousing, and building construction. They are also working with the Greek authorities in raising the administrative standards in many agencies of the Government.

Increased productivity depends not only on the efficiency of plant layout and equipment but on proficiency of labor, the effective utilization of skills, labor-management cooperation, and employees' morale. For this reason technical assistance activities also cover the fields of management and labor relations, including methods of determining job requirements and effecting placement, techniques of up-grading and retraining of personnel, apprenticeship training, and on-the-job training of workers. The United States is supplying consultants to the participating countries and they, in turn, send to the United States management and trade-union leaders and others concerned with problems of labor relations and labor efficiency. Here the visitors observe first hand, and to mutual advantage exchange experiences with labor leaders, managers and United States experts on such subjects as manpower supply, training, wage scales and employee conditions.

3. Agricultural Productivity.

There are many ways in which technical assistance and expert services can be used to foster increased agricultural production and to improve marketing methods in the participating countries. A number of proposals of this type are now under consideration.

Irrigation and reclamation projects can increase agricultural production by bringing more land into cultivation. Technical instruction and advice can also greatly increase the effective use of new equipment acquired under the recovery program. Soil conservation, fertilization and seed development are other fields where technical help holds promise of increased agricultural production. Although scientific knowledge in these fields is highly developed in Europe, a good deal remains to be done in translating this knowledge into practice. Technical assistance can be particularly effective when applied in this manner.

The adoption of more efficient and adequate marketing facilities, improved methods of classification and grading, and proper food preservation methods, such as canning and refrigeration, will increase the amount of food available from domestic production.

4. Public Administration.

Participating countries have agreed to take all possible measures to bring about internal financial stability, including the balancing of government budgets and the stabilization of currencies. In this connection, important improvements in the aspects of government administration can be expected in a number of countries by an exchange of knowledge among government officials in various countries, by their visiting other countries to study methods, and by employing experts in fields such as budget administration, taxation, monetary stabilization, and foreign exchange control.

Technical assistance in the development of national statistics can make a major contribution to the recovery of Europe. Modern methods of national accounting are essential, for example, in measuring inflationary or deflationary tendencies and in judging where and in what fields additional investment is desirable. In some participating countries present statistics are inadequate for these important purposes.

5. Overseas Developments.

The dependent overseas territories of the ERP countries, principally the United Kingdom, France, Belgium, The Netherlands, and Portugal, offer large reservoirs of undeveloped resources. The development in these areas of sources of materials needed on the European continent and for export to the United States and other Western Hemisphere markets is an important aspect of the European Recovery Program.

Development of these overseas areas calls for considerable technical assistance in the surveying of economical potentialities; in the development of known or newly-discovered mineral and agricultural resources; in the improvement of transportation and communications from the producing countries; and in the protection of the health, welfare, and safety of the inhabitants.

D. LABOR AND THE ERP.

1. The Importance of Labor in the ERP.

More than 29 million men and women are organized in the trade union movements of the ERP countries. The recovery of economic health and strength in Western Europe and the maintenance of free political institutions depend to a great degree on the millions of men and women who work for wages and salaries in the countries now joined together in the European Recovery Program.

No group has a greater stake in the success of the ERP than European labor. It is also true that no group has a more important part to play in making the ERP a success. Every measure necessary for accomplishment of recovery goals affects labor directly; almost all recovery policies and measures require labor's support to be successfully carried out.

The two prime requisites of reconstruction in the participating countries—the attainment of higher production goals and the achievement of economic stability—depend in large measure on the support of European labor. Similarly, the discomforts and even hardships which result from restricting consumption, increasing exports, and those policies essential to stabilizing fiscal conditions, fall heavily on labor. Labor's cooperation in the formulation and carrying out of such policies is indispensable to the success of economic recovery.

Labor's role is equally significant in carrying out the ERP's objective of combining increased output of goods and services with full and productive employment of workers. The support and cooperation of labor is needed in carrying out the tasks of international coordination of employment services, training of workers to new and higher skills, movement of workers to the areas where they are most needed, and their adaptation to new production methods and techniques.

The key position of the European worker and, therefore, of the labor unions, has long been recognized by the Communists. As might be expected the new Cominform concentrates its drive against the ERP on Western labor organizations. The nature of its campaign of disruption and the developments in its attack in the labor field are discussed in detail in Chapter VII. The success of the joint effort of the free people of Europe toward the attainment of economic stability and self-reliance rests upon their democratic institutions, among which none is more important than the non-Communist labor movement.

2. European Labor's Support of the ERP.

Western European trade unions, except for those dominated by the Communists, have been among the leading and earliest champions of the Marshall Plan. They have mobilized their membership, their organizational facilities, and their press to give effective and aggressive help to the program. Leadership in this undertaking has been assumed by the European Recovery Trade Union Advisory Committee (ERP-TUAC), which was organized at the First International Trade Union Conference on the ERP, held in London on March 9-10, 1948.

The ERP-TUAC now consists of representatives of 23 trade union federations in practically all of the participating countries and in the United States. Evert Kupers, Chairman of The Netherlands Federation of Trades Unions, is its chairman. Serving with him on the Executive Committee are Vincent Tewson, Secretary of the British Trades Union Congress, and Leon Jouhaux, President of the French *Force Ouvrière*. At the end of December, this Committee was recognized by the OEEC as the official international trade union representative to be consulted on questions of direct interest and concern to labor.

Many such questions have already risen in the work of the OEEC and in the future their emphasis will increase. Without the support and technical assistance of a representative group such as the ERP-TUAC, the ambitious programs that must be undertaken to expand European industrial production would not be assured the positive and informed support which the non-Communist labor organizations are now in a position to give.

Another powerful international group of trade union organizations, strongly supporting the ERP, are the International Trade Secretariats, comprising trade unions operating within particular industries or trades in a number of countries. These secretariats, such as the International Transport-workers Federation, International Metalworkers Federation, International Miners' Federation and others, are organized internationally on broad industrial lines. These trade secretariats are actively concerned with the progress of the ERP in their particular fields of interest.

In addition to trade-union participation in international councils, most of the national labor federations in the individual ERP countries are working directly with their governments in the solution of recovery problems. Advisory groups of trade unionists have been, or are being, established in many of the ERP countries to work with appropriate government agencies on ERP matters. The arrangements differ, with some countries recognizing an official relationship with labor advisory groups, others having joint labor-management advisory committees, and still others planning to have labor representation on government delegations and committees. In all cases, the purpose is to insure more active labor participation in the utilization of ECA aid in the individual countries as well as to present labor's needs and interests more effectively. Most governments of ERP countries have welcomed this relationship and have found it helpful.

Within the several countries the free and democratic national trade union federations are giving invaluable aid by supporting economic stabilization programs and otherwise fighting inflationary pressures, as well as by working to promote industrial peace, greater productivity, and more effective employment of available labor. To maintain the support of labor for such trade union and government policies, union leaders must be able to show workers that all possible efforts are being made to distribute the burdens of reconstruction fairly, and to achieve within a reasonable time improvements in their working and living conditions, their economic security, and the purchasing power of their wages.

3. ECA's Labor Staff.

The ECA, aware from the outset of the key significance of labor in the economic reconstruction of Europe, moved at once to take the steps needed to provide effective administration of the labor phases of the recovery program. It recruited staffs to work in the United States and overseas on both the broad aspects of the ERP and the more technical recovery problems which have direct bearing on labor.

Two Labor Advisers are a part of the Administrator's top staff in the Washington-ECA headquarters. A European Labor Division has been set up in the Office of Special Representative in Paris. Labor Directors have been assigned to all but four of the ECA country missions. The senior positions in all these offices are staffed by practical, experienced trade-union executives. Their first responsibility is to develop and maintain understanding and active support of the ERP by the free trade unions in the United States and in the participating countries of Europe. Second, they participate in the making of basic ECA policy. Third, and equally important, is their operating responsibility for advising on specific labor problems such as effective employment of labor, resettlement of workers, vocational training, and labor productivity.

In order to carry out these tasks more effectively, the ECA has also established a special labor information program with offices in Washington, in OSR and in the ECA country missions of the major industrial countries participating in the Marshall Plan. This program is in the hands of labor information specialists likewise drawn from trade-union ranks. They have the vital responsibility for keeping up a two-way flow of essential information. It is their job to report and interpret the objectives and operations of the Marshall Plan to European labor and also to bring to labor in the United States first-hand news of progress in European labor's participation in the ERP.

The Office of Labor Advisers in Washington distributes a monthly newsletter to some 10,000 key American and European trade-union officials, reporting current developments and correcting common misunderstandings about the recovery program. From Washington and Paris monthly and weekly news stories are made available to the labor press. Through speakers, radio broadcasts, pamphlets, posters, and exhibits, the story of the ECA has been brought home to workers abroad. Special events such as the meeting of European non-Communist trade unionists with Secretary Marshall last October and the current tour of United States labor editors through Western Europe under ECA auspices have proved especially effective in furthering an understanding of the recovery program.

Labor's participation in the ECA's entire program not only reflects the broad and unremitting support given it by labor in the United States, but also reinforces the confidence and cooperation given to the ERP by the men and women who work in Europe's factories, offices, transportation systems, fields, and mines.

4. Labor Supply and Requirements.

Since the war a number of ERP countries, especially England and France, have experienced a serious shortage of qualified labor. Suspension of a large portion of civilian production since the outbreak of the war, the wartime drain on manpower, and widespread disruption of economic life have combined to create far-reaching dislocations in the labor force. Lack of industrial training since the beginning of the war in skills other than those required in wartime has added to the deficit of qualified workers. Most important of all, widespread destruction in war-ridden areas and an almost complete stoppage of all housing construction have constituted an almost insuperable barrier to the movement of workers to the locations where they are needed.

Many of the participating countries took steps to attract workers to essential industries. These efforts have succeeded to the point where the remaining critical labor shortages are relatively few. In several participating countries, however, the need continues for experienced workers in underground mining, agriculture, and in some branches of metalworking and textile industries.

In an attempt to overcome these shortages, measures have been adopted to attract more women into part-time or full-time work, and to keep older workers in employment. In recruiting workers for the mines, special pay, food rations, and other incentives have sometimes been introduced. In addition, there has been considerable recruiting of foreign workers from the two large pools of unemployment which exist in Europe today.

Italy has the most pressing unemployment problem with more than 2 million currently out of work. Several countries, notably France and Switzerland, are recruiting Italian workers for permanent resettlement as well as for seasonal employment. Smaller numbers are going to Belgium, England and Sweden. Although Belgium itself has experienced some unemployment in recent months, it continues to seek qualified workers from abroad for certain types of employment, especially coal mining.

Another large group of unemployed is in Western Germany and Austria, and includes the displaced persons and refugees there. Of the displaced persons receiving assistance from the International Refugee Organization, it is hoped to resettle 380,000, including those going to the Western Hemisphere and to Palestine. Within the ERP countries the largest number of displaced persons has been recruited for work in England and a smaller number have gone to Belgium, France and The Netherlands.

While the participating countries concerned have reported that they have completed repatriation of prisoners of war by the end of 1948, some 120,000 in France have chosen to work there, with the status of free foreign workers.

5. Problems in Labor Migration.

Migration within Europe, however, has been slowed down by uncertainty within ERP countries about the future levels of industrial activity and employment, by shortages of housing, by local attitudes toward large-scale employment of foreign workers, and in some areas by opposition to the entry and employment of displaced persons.

At the ERP Manpower Conference in Rome at the end of January, 1948, a Rome Manpower Committee (EMICO) was created. Nine countries [1] are currently represented on it. EMICO is a technical committee with a small staff set up to improve methods for the recruiting and reception of foreign workers and to ease the problems faced by migrating workers and their families. The committee concerns itself with such problems as simplifying travel documents, language and vocational pre-training, transfer of emigrant savings and family allowances, housing, simplifying occupational classification in recruiting, simplifying medical controls, methods of maintaining social security rights, and the current exchange of information on labor requirements and availabilities.

The Governing Body of the International Labor Organization (ILO) at its March 1948 meeting in Geneva created a committee to promote international cooperation in dealing with European manpower problems. The ILO has undertaken a number of specific technical assignments suggested to it by the OEEC, the Rome Manpower Conference, and the Manpower Committee of the United Nations Economic Commission for Europe. Special attention has been given by the ILO to the problem of developing more reliable employment statistics and of standardizing job classifications for recruitment and placement of workers. It has also prepared to assist with the training programs and the work of perfecting employment services. The ILO is studying technical aspects of these problems. Several countries, notably Italy, in which employment services had been demoralized by fascism, war, and German occupation, are taking steps to improve their employment services.

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[1] United Kingdom, Belgium, France, Switzerland, Greece, Portugal, Italy, Netherlands, and Luxemburg.

The OEEC has recently taken a significant step toward closer economic cooperation by recommending to its members that an international employment service be set up among them. Under such a system, unemployed workers would be enabled to fill job openings not only in their country but throughout the participating countries.

Some reduction in the labor surplus is expected in the year 1948/49 in view of the expected resettlement of displaced persons and an increase in employment in Italy, combined with emigration. In spite of the programs to shift workers from labor surplus areas to places where they are needed within Western Europe, it is apparent, in the light of Western Europe's resources and productive equipment, that substantial outlets for Europe's unemployed will have to be found outside of Europe.

6. Productivity.

It is probable that no single measure will be as helpful to the goal of higher industrial production in Western Europe as the improvement of productivity—output per manhour—of its industries. The productivity of Western European workers, once the highest in the world and still much greater than in many other areas, is nevertheless relatively low in comparison with the standards of the United States. The disparity, in fact, is one of the main roots of Europe's economic difficulties, especially in competing for export markets.

Measures to increase productivity are not entirely, or even in major degree, in labor's hands alone, nor can greater productivity be achieved merely by greater physical effort on the part of workmen. As a matter of fact the foremost problems in improving productivity are those of modernizing management methods and plant administration. Nevertheless, by general support of and education about the goal, European labor organizations can do much to improve labor's contribution to greater productivity. A major task of the ECA labor staff is to enlist the cooperation and support of organized labor for improved methods and techniques and for the use of new and modern equipment. The problems of increasing productivity, attaining the maximum potential production, and making better use of the present and potential European labor force are ones which lend themselves particularly to treatment by the ECA technical assistance programs. These programs are discussed above in Section C of this Chapter.

7. The ECA's Relations With International Agencies.

Last September ILO officials discussed with ECA representatives in Paris the following ways in which the ILO could cooperate with the OEEC and the ECA to render valuable services in furthering the European Recovery Program:

(1) Assume a large measure of responsibility for the conduct of training-within-industry programs;

(2) Render technical assistance through statistical studies of labor requirements and labor supply for foreign workers;

(3) Develop occupational classifications to be used by participating countries in recruiting and placing workers in other countries;

(4) Lend technical assistance in setting up an international system of employment services among the participating countries; and

(5) Lend technical assistance to participating countries in the development of standards connected with employment of workers migrating from one country to another.

To establish the fullest possible cooperation between the ECA and the OEEC and IRO in expediting resettlement and the productive employment of refugees and displaced persons, the Chief of ECA's Paris Labor Division attended the first meeting of the General Council of the IRO in Geneva on September 13. Work initiated at the conference and developed at subsequent meetings has laid a groundwork for the future handling of specific resettlement projects now being formulated by several of the participating countries.

E. PROMOTION OF TRAVEL.

The travel industry has long been a major dollar-earner for the countries of Europe. Since it depends but little on the import of foreign products, its dollar earnings are largely net and its contribution to the creation of exchange is particularly effective. The development of increased travel by United States citizens in the countries participating in the European Recovery Program is therefore of substantial importance to the success of the program. Accordingly, the Congress provided, in Section 117(b) of the Economic Cooperation Act, that the Administrator, in cooperation with the Secretary of Commerce, should encourage the promotion of such travel.

Tourism ranks among Europe's greatest industries. Travel has become the United Kingdom's largest single source of dollar earnings, ranking ahead of even the textile industry. In Switzerland, capital invested in the travel "plant" represents one-tenth of the national capital investment, and income from travel represents approximately one-seventh of the total national income.

From 1928 through 1938, over 2 billion dollars were spent in the European and Mediterranean areas by United States residents—an average of about $190 million per annum. In 1946, in spite of inadequate tourist transportation facilities and accommodations and the impediment of complex frontier formalities, Europe received over $90 million from this source. By 1947, expenditures by American tourists had increased to $151 million. The European Travel Commission (a 16-nation travel advisory body to the OEEC) estimates that 1948 figures will approximately double those of the previous year.

The studies of the Commission indicate that the number of American visitors to Europe is expected to rise gradually and reach a target level in 1951 of 500,000 visitors who will spend nearly $800 million, including fare payments. On this basis the Commission has set between $2 and $2.5 billion as a reasonable target for earnings by the European travel industry during the four years 1948-1952.

Studies made by the United States Department of Commerce of the close relationship between United States national income and United States foreign travel expenditures, and the historical relationship between the number of American visitors to Europe and real purchasing power, confirm that this target is not an unreasonable one. But it can be reached only if our national income and real purchasing power remain at existing levels, and if travel facilities and conditions are brought up to the standards existing during the inter-war years. The full advantages to European recovery from the tourist trade will be realized only if there are stable currencies and if the foreign exchange derived becomes available to the participating countries through prescribed legal channels.

The advantage to American business of new earned dollars in the hands of customer countries is obvious. Foreign travel has long been the United States' greatest "invisible" import. During the 1920-1940 period over 8 billion dollars in exchange was created by the foreign travel expenditures of United States residents.

1. Plan of Operation.

The basic plan of operation is set forth in Section 117(b) of the Act, which provides that the Administrator, "in cooperation with the Secretary of Commerce, shall facilitate and encourage, through private and public travel, transport, and other agencies, the promotion and development of travel by United States citizens to and within participating countries." The direct operational function of developing and promoting the travel of Americans to and within the participating countries is performed by the travel industry. The United States Government's role is that of facilitating and encouraging their efforts.

To carry out the plan domestically, the ECA, by agreement with the Department of Commerce, has been able to use the travel development facilities of the Travel Branch in the Department's Office of International Trade. The Travel Branch is concerned with official barriers to travel development plans, the travel plant, and the travel market. It analyzes, plans and develops measures to assist the travel industry's promotion of expanded travel. A Travel Advisory Committee, established by the Secretary of Commerce and made up of business leaders experienced in various aspects of the travel industry, considers measures to develop foreign travel, especially travel by United States citizens to participating countries.

In Europe, a European Travel Commission, made up of representatives of the official travel organizations of the participating countries, was constituted in Oslo in June 1948, and the next month was officially recognized by the OEEC as its advisory body on travel development under the recovery program. Through this organization the private and public travel, transport, and other interested agencies of the participating countries are mobilized in a cooperative effort to improve travel conditions in Europe and to develop the travel of United States citizens to and within these countries.

The Travel Development Section of the Office of the Special Representative, in Paris, cooperates closely with the Commission and with the technical committees of the OEEC, such as the Inland Transport and Maritime Committees. This section of the OSR cooperates in the developmental work, evaluates the proposals, and appraises developments to insure that the policies and purposes of the Act are being carried out. It is particularly concerned with the elimination of barriers to United States travelers, the improvement of travel conditions, and the construction of adequate facilities and accommodations.

2. Specific Developments.

Unilateral action abolishing visas for short-term visits by Americans has been taken by Norway, Sweden, Denmark, The Netherlands, Belgium, Luxemburg, Switzerland, Italy, and Great Britain.

The ERP countries have taken special steps to free visitors from export and rationing controls. They have made more liberal allowances for motor fuel, certain foods, and merchandise, thus encouraging increased purchasing by American travelers. Certain exchange control regulations have also been relaxed and simplified.

All sixteen countries are critically examining their travel plant needs. Analytical studies of equipment requirements have been completed by France and Greece. Italy is considering a program for travel development which would utilize 8 billion lire from counterpart funds. England and Austria are in the process of formulating their travel programs and the three Scandinavian countries are planing to draw up a plan for combined travel development. In addition, the participating countries are considering simplification or elimination of their frontier controls, and are studying the impact of taxation and exchange controls on the travel plant and the possibilities of increasing low-cost travel facilities.

A program of special events to increase off-season travel is under development. The airlines have put into effect reduced rates (round trip one and one-third of one way) for 30-day trips to Europe, effective since October 1948.

F. VOLUNTARY RELIEF SUPPLIES.

To encourage voluntary relief contributions to Europe, Section 117 (c) of the Economic Cooperation Act provided for the payment of ocean-freight charges on certain kinds of relief shipments to countries receiving ECA grants.

Under the Act, three broad groups of voluntary relief shipments, all calling for somewhat different treatment, are subsidized:

(1) Supplies sent by United States voluntary non-profit relief agencies;

(2) Individual relief packages purchased by individuals in the United States and shipped by parcel post to individuals in participating countries; and

(3) Commercial shipments of individual packages sent by ocean freight from the United States.

1. Voluntary Non-profit Relief Agencies.

Voluntary agencies engaged in relief work abroad may apply to the ECA for reimbursement of the ocean-freight charges on shipments of relief supplies to countries receiving grant aid under the ERP. Such agencies must be registered with the Advisory Committee on Voluntary Foreign Aid of the Department of State, a group of public-spirited citizens interested in relief work and serving without pay. This group, the members of which are appointed by the Secretary of State, approves the agencies' programs of field operations and certifies them to the ECA as eligible for reimbursement of the ocean-freight charges. The ECA finally determines whether reimbursement should be made.

2. Individual Relief Packages Shipped by Parcel Post.

Most individuals who make up their own gift packages for foreign recipients prefer to ship them by parcel post. Since the law authorizes payment of the costs of ocean freight, the ECA and the Post Office Department entered into an agreement whereby the ECA pays four cents a pound (the rate, to the nearest cent, charged by shipping lines for carrying parcel post to Europe) on each approved relief parcel. In cases where the receiving country has agreed to pay terminal charges, the total benefit to the donor is eight cents a pound, deducted from the standard international parcel-post rate of 14 cents.

A second problem in connection with individual relief packages was to determine on what articles ocean-freight charges should be paid. One factor that had to be considered was the types of articles which the receiving countries would agree to admit free of customs duty. It was decided to limit the contents of the packages to be shipped under the subsidy to food, clothing, clothes-making materials, shoes, shoe-making materials, medical supplies, and household supplies and utensils.

3. Commercial Shipments of Individual Packages by Ocean Freight.

Many donors of relief parcels prefer to buy their packages from commercial firms which handle all the details of packing and shipping.

ECA Regulation No. 5 gives individuals selecting this method of shipment the benefit of the subsidy. The Foreign Aid Appropriation Act, 1949, however, requires the ECA to fix and pay a uniform rate for packages shipped by "ocean transportation." The legislative history of this provision indicates that the Congress intended that commercial firms should not receive a higher shipping subsidy than that paid to non-profit voluntary relief agencies. Accordingly, Regulation No. 5 prescribes a uniform set of rates, based on those paid by the non-profit organization having most favorable rates from shipping companies.

4. Limitations on Size of Packages.

Gift packages have been limited in weight to 44 pounds (20 kilograms) by Regulation No. 5. The provision was considered necessary to stop the shipment of larger packages, particularly 100-pound sacks of flour, which might find their way into the black markets of receiving countries where basic foods are strictly rationed or allocated.

Reports to the Office of International Trade of the Department of Commerce indicated that some such earlier shipments actually did find their way into black markets. Therefore parcels were limited to a size which an average family could use up in a fairly short period of time.

Similar considerations have led to more restrictive regulations in particular countries. For example, the recently concluded agreement with Italy for the free entry and transportation of relief supplies limits the weight of packages to 22 pounds and the number to one package a month for each addressee.

5. Agreements With Participating Countries.

The bilateral agreements concluded with participating countries which receive grants (except Norway and Denmark) contain articles which provide (1) that the participating country will negotiate an agreement to facilitate the entry of relief supplies and packages free of customs duties, and (2) that it will make available counterpart funds to pay for handling and transportation costs within their borders. In the course of negotiations, it was agreed by the United States and Norway and Denmark that inclusion of an article on relief packages was not appropriate since they did not feel voluntary relief shipments were necessary in their countries. Therefore, the cost-of-shipping payments are not available for private relief packages to those countries and the article providing for negotiations for free customs entry was omitted from their bilateral agreements.

Final agreements on free customs entry and payment of internal transportation have now been concluded with the United Kingdom, the Bizone, France, and Italy. Those four countries are the major European recipients of private relief shipments receiving more than 90 percent of the total. A similar agreement has been signed with China. In general the agreements are the same, except that each country has asked for special provisions, based on the particular conditions within its borders, to make sure that relief supplies do not get into local black markets or otherwise upset rationing and allocation measures.

6. Conclusions.

The provision for payment of ocean-freight charges on voluntary relief contributions to countries participating in the ERP caused considerable difficulty in the first months of its operation. It required detailed regulations on types of shipment and reimbursement. Furthermore, negotiations with participating countries concerning duty-free entry and defrayment of inland-transportation costs have been prolonged and difficult.

Except possibly in the case of Germany, which receives over 50 percent of all relief packages, the volume of relief packages is not such as to affect materially the general standard of living in the participating countries. Most of the countries have negotiated agreements rather reluctantly since the gift parcels cause customs and rationing difficulties. In addition, the prospective loss of dollar revenue from terminal payments on parcel-post shipments has been a major deterrent to many countries.

Experience in the first months of operations indicates that ECA expenditures for ocean freight on relief supplies is currently running at an annual rate of about $15 million a year. It was expected, when the provision was enacted, that the volume of private relief shipments would increase as a result of ECA assistance and terminal payments by foreign governments. The records of the Advisory Committee on Voluntary Foreign Aid show that the dollar value of voluntary relief shipments made by recorded agencies during 1948 kept abreast of the shipments made in 1947. Although contributions fell off, the value of goods shipped remained the same because of the subsidy. Contrary to expectations, however, shipments in the category of parcel post declined in volume during the first five months of operations by about 35 percent.

It is estimated that relief in the form of voluntary agency shipments and individual packages via parcel post and ocean freight is supplementing ECA assistance at the rate of $200 million a year, of which $127 million is in the form of individual packages and the balance of $73 million in the form of supplies sent by voluntary agencies.

G. INFORMATION PROGRAM.

The success of the European Recovery Program depends not only on the policies and actions of participating governments but on the enthusiastic support of the ERP by the people of Europe. The obstacles to recovery are not alone financial and economic, but also psychological.

It is necessary to clear away those real, if intangible, mental impediments to recovery and to change negative factors of misunderstanding, indifference, or opposition into positive factors of intelligent support. There may be no measure for assessing the additional contribution which an informed and determined public can make toward recovery above that of an uninformed, skeptical, or reluctant public—other than the measure of common sense. But it is obvious that the difference is very great.

Accordingly, the Economic Cooperation Administration and the participating governments have undertaken, in cooperation, to give full publicity to and explanation of the objectives and progress of the Marshall Plan. The Congress in the enactment of the Economic Cooperation Act recognized the importance of such an information program.

1. Special Difficulties in ERP Information Programs.

The problem of giving the people of Europe an understanding of a subject as vast and complicated as the ERP poses special difficulties.

The first is the sheer size and the great variety of the target of an information program—some 270 million people of all shades of political opinion, educational background, and national heritage in 19 different Western European political units. Another is the fact that the very groups most necessary to inform, such as industrial workers and farmers, are among the most difficult to reach. A third difficulty is the nature of the Marshall Plan itself, complex in scope and methods. Its subject matter of trade, production, finance, and international economics is difficult to grasp and understandably has little natural or surface attraction to people absorbed in the difficult daily problems of finding enough food, keeping warm, and making ends meet under conditions of inflation and unrest.

A fourth problem is the circumstance that the flood of Axis propaganda over the years created among European peoples an attitude of indifference approaching outright resistance to all official information. Furthermore, some of the most basic ideas which a useful information program must promulgate—the need for harder work, for the modification of age-old concepts of nationalism and separatism, for the acceptance of continuing austerity, for the adoption of policies which in the short term might involve personal discomforts—are not in themselves ideas which are readily welcomed.

A final difficulty is the persistent effort of the Cominform to obstruct the Recovery Program. As a tactical force dedicated to the specific objective of wrecking the ERP, the Cominform uses every method of propaganda and agitation, of intensive and distorted publicity, to cast doubt on American motives, to deny the prospects of the program's success and to hypnotize European peoples into a state of fearful, despairing immobility. The development of Communist opposition and the tactics of the Cominform's anti-ERP propaganda campaign are traced in Chapter VI of this document.

What has been accomplished to date in giving the people of Europe both information and encouragement in working for recovery must be appraised against this background of natural and unnatural obstructions.

2. ECA Overseas Information.

To help conduct the necessary information program, the ECA established an information division in the Office of the United States Special Representative in Europe, and information staffs in most of the ECA Special Missions overseas. These offices fill the need, not met by the facilities of the United States Information Service (USIS) and the United States Army (in Germany and Austria), for specialized information units to prepare material for general outlets and to deal with American and foreign governmental, business, labor, press, and other agencies concerned with the ERP. The compact staffs consisted, at the end of the calendar year, of 20 Americans in the Paris office and 35 in the missions.

A major function of the ECA overseas information program has been to assist and stimulate the European national and international organizations in operating effective information programs. But however much success is achieved, there remains a field in which the United States through its own information agencies must speak for itself. The only authoritative, accredited, and accepted source of information to Europe about American policy and action is an American agency. There is, further, a substantial area in which the United States through its assistance and encouragement can lend the cooperating governments and groups abroad extra strength in combating the Communist attack against recovery.

In public information work, the ECA has made the fullest possible use of existing USIS and Army publicity facilities in Western Europe. As to general division of work with the Department of State, the agreement between the Secretary of State and the Economic Cooperation Administrator, signed September 20, 1948, sets forth the basis of cooperation. This agreement, in brief, foresees the USIS in the major role of distributor and disseminator of news of the ECA and the recovery program, and ECA information offices as the originators of ERP news material and subject-matter specialists.

The terms of this agreement have been fully observed. In the production of news material full use has been made of the Washington information services of the State Department, and distribution has been carried out effectively through the Voice of America and the Wireless Bulletin to Western Europe and through the USIS offices in Europe.

The USIS operates in almost all of the Marshall Plan areas, and the Army conducts an information program in Germany and Austria. The question has arisen, accordingly, about the need or justification for a separate ECA information organization overseas. There are compelling reasons for its existence:

(1) In the magnitude of its expenditures and the significance of its program the ECA ranks among the most important agencies of the Federal Government. To meet its needs for public information in Europe, for reporting information back to the United States on the program overseas, and to exploit the almost unlimited informational opportunities provided by the Marshall Plan, a specialized information staff is necessary. A specialized informational task is involved.

(2) What is known of the Cominform's propaganda drive indicates that thousands of propaganda agents are at work in Western Europe and that the equivalent of millions of dollars has been poured into advertising space, newspapers, organization expenses, publications, speakers' bureaus and other media of all kinds. To counter the activities of such an organized attempt to wreck the ERP requires the help of an information agency focused on Marshall Plan considerations and specialized in the subject matter.

(3) There is a substantial difference in function between what USIS is set up to do and what the ECA must do. USIS, according to its legislative charter, carries out one basic function: to disseminate information abroad about the United States and United States foreign policy. Only to a very small extent does it originate reports on the operation of United States agencies abroad. It does not report foreign news back to the people of the United States, and it does not attempt to carry on a specialized service of reporting foreign news to foreign audiences. The ECA, however, must work in all of these fields. An effort is made to assist in telling Europeans about the program and American motives and interests

and developments under the program, progress being made, problems to be faced, and responsibilities to be met.

(4) Such agencies as the Office of the Special Representative and the ECA country missions require the usual services of an information division—to prepare press releases, service private radio and press correspondents, and publish news of day-to-day developments. Were the USIS to assume this function it would be undertaking a task which is quite afield from its normal function, and it would be obliged to set up a separate set of offices, in effect another ECA information division.

The overseas information staff of the ECA in Paris is the central American agency in Europe to which representatives of the American and international press in Paris turn for daily information on the recovery program. It serves as subject-matter specialist in producing news and publicity material about ERP for dissemination through the existing facilities of the USIS and the Army. Its activities are described in detail below.

The country mission information officers handle mission press relations, work with the participating governments and private groups to encourage their assistance in publicity, adapt and disseminate materials provided by Paris and Washington, and report local recovery developments back to Paris and Washington for distribution in the United States and throughout Europe. Labor reporters have also been assigned to a number of the missions to concentrate on an intensive information program among European workers.

The overseas information program of the ECA has four general functions:

(1) To make available to the American and international press material useful in reporting on the activities and status of the recovery program.

(2) To promote an understanding among the European people of the motives of the United States in extending recovery aid, to explain the objectives and methods of the program, to tell the amount of help which America is extending, and to create an awareness in Europe about the ERP, its progress and its operations.

(3) To make clear to Europe the relationship of the Marshall Plan to American foreign policy objectives and to counteract the Communist propaganda campaign against Western European recovery.

(4) To help demonstrate, through a campaign of popular economic education, the requisite steps which are necessary if the economic stability of the participating countries is to be attained by 1952.

The first two of the general functions listed above are in the nature of duties customarily performed by Governmental information offices. The last two functions—counteracting Communist propaganda and undertaking a widespread campaign of popular economic education—call for vigorous activity beyond the conventional role of a government information service in the United States. Yet it is essential that these functions be performed if effective public support for the ERP is to be won.

The Communist anti-recovery campaign obviously cannot go unchallenged and unchecked, and the ECA is the specialized agency best equipped to meet the attack.

Similarly, it is of first importance to enlist the vigorous support and eager cooperation of the peoples of Europe. This entails a basic understanding of difficult economic concepts, a popular appreciation of the steps which each country, and each individual, is to make if recovery is to be achieved. There is a pressing need of public acceptance of hard choices. If the governments are to adopt the necessary policies, and to be supported in them, a popular economic educational campaign, similar to that which is now successfully under way in the United Kingdom, is essential.

The Information Division of the Office of the Special Representative in Paris engages in the following activities:

News. Routine press contacts for all OSR units are handled through the Information Office and press inquiries of all sorts are dealt with in the same centralized manner. Press releases and other news and feature material gathered or issued by the Division are made available at once to information offices of the ECA country missions and to USIS. The latter transmits important items to Washington and New York for still further distribution in the Department of State's daily radio bulletin and via the Voice of America.

Weekly Special Features Bulletin. Background material and special feature stories describing various activities of the ERP in the participating countries are distributed in a Weekly Bulletin issued by the OSR information division. The bulletin is sent to Washington, the ECA country missions, the USIS, the OEEC and a large mailing list of editors, publishers, and correspondents. Many of the articles are reproduced in Western European newspapers and magazines. The publication carries approximately ten stories a week for use both in the United States and abroad.

Motion Pictures. The Information Division of OSR has produced an animated technicolor cartoon, with local-language sound tracks, describing the recovery program, which will be distributed in Europe beginning early in 1949. The film stresses the primary responsibility of Europe in achieving recovery and illustrates the importance of American assistance. The division has given substantial help to numerous private documentary film and newsreel producers in making arrangements, locating subject matter, and advising on material to be filmed.

Radio and Television. The OSR information division has made arrangements for leading radio networks in Europe and the United States to tell the story of recovery developments in Western Europe. Many such broadcasts have been made. Two fifteen-minute broadcasts a week are prepared by the Voice of America and broadcast by Radio Luxemburg without charge. The same programs, suitably translated, are also broadcast without charge over the Italian and Austrian Systems. They present prominent American government, business, labor, and civic officials giving the United States view of the recovery program.

The Division has cooperated with the British Broadcasting Corporation in the production of two weekly programs dealing with European recovery which are transmittted in the BBC domestic network and on its overseas services in 14 languages.

All ECA films produced in Europe are being supplied to American broadcasters to be used on television shows. Plans have been developed with one of the major United States networks to produce a television documentary film about recovery activities in Europe.

Labor Information. A specialized staff within the Information Division is responsible for maintaining contact with European labor editors and for supplying them with material about the recovery program. There are two aspects to this program:

(1). Maintaining flow of news and information material about ERP of interest to European workers, with particular emphasis on the benefits to be achieved through democratic forms of government;

(2). Providing news of recovery in Europe which will be of special interest to the labor press and trade union members both in Europe and in the United States.

To meet the needs of this labor information program, a labor supplement to the Weekly Bulletin is distributed to the labor press of the participating ERP countries containing specially written news stories, feature articles and background material dealing with labor problems in Western Europe and in the United States. Information in the labor bulletin also is sent to the ECA Washington office where it is redistributed to the American labor press.

In Washington, the Office of Labor Advisers publishes each month an eight to twelve-page newsletter, entitled TRANS-ATLANTIC, which is directed to some 10,000 key American and European trade union officials. It serves a three-fold purpose:

(1). To keep labor leaders informed on those aspects of ERP which are of special interest to labor;

(2). To answer the specific charges leveled against the program by the Communists; and,

(3). To promote a better understanding among workers through an exchange of information about their respective countries.

Press Intelligence Service. An analysis of the news and editorial comment about ERP which appears in the Western European press is issued weekly for the guidance of the staffs of the OSR, the ECA in Washington and the ECA country missions. Particular attention is given to analyzing the basic propaganda themes being directed against the recovery program by the Communists press in Europe.

Press Photo Service. A master "morgue" of photos covering the United States and the European side of the ERP has been set up in Paris with the aid of the missions and Washington office. Subject matter ranges from ship loading in American ports to the use of ERP-provided materials in factories and the use of counterpart funds in reconstruction projects. The "morgue" services news photo agencies, newspapers, magazines, free lance writers, the country missions, and Washington. The final use of these photographs includes displays, pamphlets, and other news outlets.

Pamphlets. The information division has projected a series of English language pamphlets which can be distributed from Paris and the country missions and which can also serve as texts, to be modified or enlarged as local conditions make advisable, for translation into the requisite language by the information offices in the country missions. Of the series, the following have been published:

(1) A short "fact sheet" about the ECA;
(2) A comprehensive, but simply written, pamphlet describing the recovery program, its origin, major provisions, American motives and expectations;
(3) A compendium of statements by ECA officials on labor's role in the recovery program, plus the resolution and reports on ERP adopted by the AFL and CIO annual conventions in November 1948. Under preparation as of January, 1949, were:
(4) A short leaflet on what the recovery program means to European labor;
(5) A pamphlet listing and answering the principal Communist charges against ERP;
(6) A question-answer pamphlet on ERP, with special attention to businessmen's questions on how to operate within the framework of the program;
(7) A series of simple pamphlets on "The Marshall Plan and the Housewife", "The Marshall Plan and the Businessman", "The Marshall Plan and the Farmer", etc.;
(9) A color cartoon booklet on ERP, adapted from the animated cartoon film produced in Paris;
(10) A picture booklet showing United States production sources of materials provided by ERP.

3. Publicity by Participating Countries and the OEEC.

The participating governments have discharged their responsibilities to give full publicity to the ERP with varying effort and success. Some nations have for some time been carrying on extensive programs of economic information and, since the recovery program, have added new elements and new emphasis to the campaigns in progress. Other countries, beset by severe budgetary problems and internal political turmoil, have lagged behind. In all countries, however, the participating governments have issued public reports on the status and progress of recovery. Responsible officials, in parliamentary debate and in public statements, have sought to publicize and arouse support for the program. In most countries, steps have been taken to expand publicity activities, and many have assigned special officers to publicize the ERP.

Private groups in the participating countries have helped to fill the needs for ERP information in those extensive fields in which official publicity is of limited effect. Labor, business, and agricultural groups have publicized and discussed the program. Their work has greatly increased knowledge and understanding of the ERP in Europe today.

Nevertheless, much remains to be done by governmental and private organizations within each country to explain by suitable public information programs what is required of each citizen and each group in the community if recovery is to be achieved. These programs, to be effective, must be framed in popular, simple terms and must be promulgated in all popular media.

The OEEC is discharging in an effective manner the usual informational duties appropriate to an intergovernmental agency. It has regularly published the results of its deliberations, made suitable explanations and condensations of its recommendations and conclusions to the press, issued pamphlets and releases in popular form to describe its operations and achievements. Its officials have been energetic in making public and radio appearances to discuss and illustrate the work of the organization. Its information staff in Paris is in daily person-to-person contact with the press, radio, and periodical reporters of all nations, answering their inquiries and supplying them with a regular flow of news on OEEC developments.

The OEEC Press Office took the lead in establishing a working group of information attaches from representative participating countries to arrange for maximum publicity on OEEC developments. The Director of the OSR Information Division is a member of the group. The close and useful liaison which has resulted has aided in joint exploitation in the participating countries of both OEEC and ECA information projects.

The OEEC has not yet launched, however, a systematic publicity campaign in the field of popular economic education, so that the goals and methods of the recovery program may be fully understood and supported by the peoples of the participating governments.

4. ECA Information in the United States.

The foregoing discussion has dealt exclusively with ERP information overseas. In addition, the ECA conducts information activities in Washington which make available to the press and public day-to-day news of developments in the program at home and reports on its operations abroad.

The ECA Information Division uses the usual media of press releases, public statements, statistical, and economic reports, and the like, to disseminate factual information on the program. It relays to the American press information on overseas operations and prepares material for use and distribution abroad via State Department and ECA information offices. For example, it aids in preparation of radio programs for use by the Voice of America and other European outlets; makes photographs of American recovery goods for use in Europe; aids in the preparation of pamphlets and other information material required in large quantity by overseas offices.

A specialized staff for labor information has been established within the Office of the Labor Advisors to keep American workers informed about the purpose and progress of the ERP. For details, see Section D (Labor and the ERP) of this chapter.

H. LABELING.

The Economic Cooperation Administration has taken steps to inform those who receive ECA-financed goods that the shipments are made possible by the European Recovery Program. One measure is the requirement that such commodities be labeled with a striking emblem which identifies them as ECA-financed.

The emblem is a shield composed of four white stars on a blue background above thirteen vertical red and white stripes. Between the stars and stripes appear (with some variations) the words: "For European Recovery—Supplied by the United States of America." The emblem appears, whenever practicable, on the goods themselves and on the containers in which they are shipped.

In June 1948 the Administrator approved the shield as the official ECA emblem. October 15 a detailed labeling requirement was included in ECA regulations, putting responsibility on the importer in the participating country to arrange for labeling. Meanwhile the ECA conducted an extensive publicity program to acquaint both United States suppliers and foreign purchasers with the purpose and use of the ECA emblem. The newspapers and advertising trade and business journals helped to publicize the emblem. Foreign representatives in Washington and abroad promised cooperation. Samples of the emblem and of the text, translated into foreign language, were supplied to foreign governments. As a result of these measures more and more goods going to countries participating in the European Recovery Program are clearly marked as ECA-financed. The ECA requires that goods financed by the ECA, procured either in the United States or elsewhere and financed either by loan or by grant, be labeled. When orders placed after the labeling requirements became widely publicized are ready for shipment, labeling will become almost universal. The one big exception is in the case of bulk shipments of commodities such as grain and oil which do not lend themselves to labeling.

1. Examples.

a. The Netherlands.

The Netherlands Bakers Foundation has issued posters, for display in all bakeries, bearing the ECA emblem in color and the additional legend: "More than half of your daily bread was baked with Marshall Grain."

b. France.

Some 2500 box cars, now being made in the United States for shipment to France, will be marked with the ECA emblem. On one side of each box car the emblem will appear with English text, on the other side with French text.

c. Germany.

The U. S. military authorities have arranged to affix the ECA emblem on several thousand freight cars which are being repaired, for use in

Germany, in other European countries. Each freight car will display the emblem with the following text: "For European Recovery—Repair Made Possible by the United States of America." The first of these cars have already arrived in the Bizone and a public celebration publicized the event.

d. Denmark.

In August the Government purchased two DC-6 aircraft with an ECA loan. The Government arranged to have the ECA emblem painted on the inside of the cabin door where it would be clearly visible to all who board and leave the plane.

e. Italy.

Sacks of flour for Italy are stamped with a large copy of the ECA emblem with the text in Italian.

2. Marking of Gift Packages.

By arrangement with the U. S. Post Office, all individual gift parcels on which the ECA pays ocean transportation are labeled with the ECA emblem bearing the text: "For European Recovery—Ocean Transportation paid for by the United States of America."

CARE packages and gift packages purchased through stores are labeled with the ECA emblem bearing the text: "The United States of America has paid a portion of the ocean transportation of this gift package as part of the European Recovery Program . . . making possible a reduction in the shipping cost paid by the sender."

Voluntary relief agencies which are shipping goods abroad (on which the ocean freight is paid by ECA) are preparing an emblem similar to the ECA's which will show the name of the agency and state that the freight charges have been paid under the European Recovery Program.

I. GUARANTIES.

Private investment of dollar capital in Europe has failed to revive since the war because, among other reasons, in many countries there is only limited possibility that the return from investment in the form of the local currency can be converted into United States dollars. The Congress, recognizing that a flow of private capital from the United States to the participating countries of Europe would help the dollar position of these countries and accelerate economic recovery by adding to their productive capacity, undertook in the Economic Cooperation Act to encourage new American investment by authorizing the ECA to guarantee convertibility of the proceeds of such investment. Section 111(b)(3) of the Act authorizes the guaranty of the convertibility of certain investments in projects, including enterprises producing or distributing informational media, approved by the Administrator and the participating country concerned as being in furtherance of the purposes of the Act.

Applications for industrial guaranties are examined by the ECA in the light of approved country recovery programs and the impact upon the American economy. The major points considered in connection with industrial projects are the need for the products in the participating country, the amount, if any, of dollar imports to be saved, the creation of new exports, and the over-all soundness of the projects from the standpoint of the furtherance of European recovery.

Applications for guaranties in connection with the production and distribution of informational media are considered in the light of the legislative intent to help spread a true understanding of American institutions and of democracy, in Europe. The legislative history of the Economic Cooperation Act reveals that the Congress had in mind both giving to readers in Europe reliable news and informed comment on world affairs and keeping them informed about the American way of life. The application of these criteria, which the ECA utilizes as a general guide, has resulted in the disapproval of guaranties for certain publications which, although enjoying a large circulation in the United States, are exclusively of an entertainment character and do not purport to give a balanced picture of American life.

The types of information in the various media which are believed best designed to achieve the legislative objective are (1) technical information which will directly assist the increase of European productivity and the improvement of industrial, agricultural, and financial methods; (2) accurate and objective reports and discussion which will inform the people of Europe of current news developments, thinking, and comment in the United States on subjects of world concern—the ERP itself, American foreign and domestic policy, economics, politics, and the like; and (3) information of a general and non-technical nature which will present to Europeans a faithful and well-rounded picture of American life. Material selected according to these standards and circulated in the participating nations should do much to strengthen the process of European recovery and to promote the understanding in other lands of American conceptions of freedom and democracy.

Guaranties are made in connection with new investments. With respect to informational media guaranties, in appropriate cases the costs attributable to each new issue of a publication or film may be considered as a new investment.

Responsibility rests with the investor for obtaining the approval of the government of the participating country for the project required by the Act. The ECA country mission extends assistance to the American investor in this respect. The mission also negotiates with the participating country for assurances regarding the uses which may be made of local currencies acquired by the United States Government under the guaranties.

While inquiries on the subject of industrial and informational guaranties have been numerous, the dollar value of the applications approved or pending (industrial projects, about $6 million; informational media, about $4 million) has been far below the statutory limit. The primary reason for the low dollar volume of applications would appear to be the uncertain conditions in Europe, which are not conducive to attracting new dollar investments even with a guaranty of convertibility. A secondary factor affecting the magnitude of applications to date is the relatively short period since the inauguration of the guaranty program.

J. EXCHANGE RATES.

1. The Role of Exchange Rates in the European Recovery Program.

The pattern of exchange rates is one of several important elements in the European recovery problem. Adjustments in exchange rates are a necessary aspect of European recovery, but it is a mistake of the first magnitude to assume that such adjustments are all that is required to produce recovery. Under competitive conditions, the volume of exports and imports in relation to production and consumption within a country is determined in large part by relative exchange rates. Under present conditions, however, the exchange rate has a more limited role. In view of the low levels of production in the immediate post-war period and the difficulties of the international exchange situation, the European governments have controlled their foreign trade and their domestic economies through such devices as exchange control, import and export licensing, allocation of raw materials and products, rationing of consumer goods, price controls, subsidies, State trading, and bilateral trade and payments agreements.

Relative exchange rates have an important role in determining the movement of trade to particular countries. Under competitive conditions the exchange rate operates directly, assuming given conditions of production and costs, while under present circumstances the exchange rate operates within the framework of internal and external controls, including bilateral trade and payments agreements. Moreover, technological advance, changes in the distribution of income, and level of investment may result in drastic modifications of the merchandise composition of international trade, regardless of the exchange rate structure. In the case of the participating countries their normal trade channels have been disrupted by the effect of the war, particularly the decreased importance of Germany as a source of materials and as an important consumer of the products of other countries. While these factors represent offsetting influences, modifications of exchange rates in the proper direction may have the effect of directing trade to the desirable channels and changing its commodity composition in accordance with relative production costs.

2. Exchange Rate Adjustment and the Balance of Payments.

The primary function of the exchange rate under competitive conditions is to establish equilibrium in a country's balance of payments. The level of exchange rates then determined exports, imports, and, to a degree, the invisible items in the balance of payments. Thus it may be argued that where a country is unable to balance its international accounts at a given rate of exchange, the remedy would be to devalue, thus restricting imports and encouraging exports to the extent necessary to bring about equilibrium, assuming normal capital movements. If this principle were applied to the European countries today, drastic devaluations in terms of the dollar would be indicated in most cases. In this way the cost of dollar imports would rise greatly, while the reduction of the prices of foreign goods in terms of dollars might be expected to increase exports to the United States. To maintain their present volume of imports from the United States they would have to export much larger proportions of their total production to this country. In so doing, the levels of consumption in Europe would be reduced to points which would produce economic maladjustment and political unrest.

The level at which Europe balances its current accounts with the United States will be determined largely by the amount and character of United States assistance. At present a balance could be achieved without United States assistance only at a cost of drastic reduction in essential imports, since it is impossible to expand exports immediately to a sufficient level. A sharp reduction of raw material, food, and capital goods imports would reduce European output by disrupting industrial and agricultural production and would reduce living standards to politically disastrous levels and require the abandonment of the most urgent reconstruction projects. Any level of imports appreciably below that projected by the original ECA program does not give a reasonable prospect of viability of free society in Europe. With these considerations in mind, adjustment of exchange rates is only one of the major issues involved in the determination of the levels of production and consumption and the volume of foreign trade of the participating countries.

3. Exchange Rates in Relation to European Exports.

The exchange rate has a particular significance in terms of the ECA program. A major problem is the level of European exports of goods and services, since the greater the amount of the deficit which is covered by normal trade and service, the smaller will be the amount of United States assistance required to produce viable economies in Europe. At the conclusion of the recovery program these countries should be in a position to finance their Western Hemisphere requirements without extraordinary assistance from the United States Government. With this end in view, modifications of exchange rates will probably be needed in the course of the next three years. It is important to bear in mind, however, that in the early stages of European recovery the appropriate exchange rate is not necessarily the one which maximizes exports. A lower exchange rate may result in a diversion to the export market of resources needed for domestic reconstruction and recovery. Without prejudice to the desirability of devaluation where such a step is clearly indicated as a measure for expanding exports, it should be borne in mind that devaluation may tend to create inflationary pressures. Higher prices of imported commodities may result in increased wage demands which will make more difficult any program of domestic stability.

The available import and export data give some rough indication of the rate at which the total exports of the European countries have recovered since the end of the war and the direction of trade. Taken by themselves, they do not indicate the degree at which any country has made an effort to become self-supporting. Other factors such as the level of production and employment, the requirements for reconstruction, depending in part on the amount of destruction, and the conditions of foreign markets, must be taken into consideration in evaluating the export effort of a given country. Moreover, trade data do not indicate the extent to which exchange rate adjustments in the last two years would have enabled the participating countries to meet a larger portion of their Western Hemisphere deficit. Considered in conjunction with other relevant material, trade data may indicate situations which will require further study in relation to the exchange problem.

The total exports of the ERP countries to all countries amounted to $9.1 billion in 1938 and $12.8 billion in 1947. If, however, Germany and Austria are excluded from the calculation (since Austria was invaded by Germany in 1938) the respective figures are $6.7 billion and $12.4 billion respectively. The level of exports measured in terms of dollars (with conversions at rates of exchange applicable to exports) thus is slightly under the amount which might be expected if allowance is made for the rise in prices in the United States between 1938 and 1947. Approximately the same situation prevails with regard to exports to the United States. In 1938 the ERP countries, exclusive of Austria and Germany, exported $373 million to the United States and $635 million in 1947. In 1938 the rate of exports to the United States was 5.6 percent and in 1947, 5.1 percent. Considered in relationship to United States imports, the participating countries provided 24.5 percent of total United States general imports in 1938 and 12.1 percent in 1947. If Germany and Austria are excluded from the figures the percentages are 21.2 and 11.9, respectively. It may be noted, however, that United States imports consist largely of raw materials and finished products obtained from areas other than Europe.

As indicated in the table on Exports of ERP Countries, the proportion of trade moving to the United States varied considerably from country to country. Austria, Denmark, Portugal, Switzerland and Turkey have conspicuously increased the relative share of the United States in their exports, while on the other hand there have been decreases in the ratio of exports going to the United States from Belgium, France, Italy, The Netherlands and Norway. The United Kingdom and Ireland have maintained approximately the pre-war ratio. There has been some tendency to increase exports to the other Western Hemisphere countries, while the percentage of exports going to Eastern Europe has in most cases been sharply reduced. In the case of the United Kingdom there has been some tendency to shift a larger percentage of the total exports to the sterling area, while Belgium, France, The Netherlands, and Portugal have increased their exports more than proportionally to countries outside of Europe and the Western Hemisphere.

These movements of trade probably can not be explained mainly in terms of relative exchange rates and they do not indicate a greater concentration of trade among those countries whose currencies might be regarded as over-valued, in terms of the dollar. More probably the movement of trade has been determined by the character of production and by the terms of bilateral trade, clearing and payments agreements, and other factors than the exchange rate.

TABLE 1.

Exports of ERP Countries, 1938-1947

Country	Value in Millions of Dollars	Percentage Distribution by Destination			
		U. S.	W.H. (incl. U.S.)	ERP	And All Other
Austria					
1938	228.4	2.5	4.9	51:7	43.4
1947	84.2	5.2	6.7	69.3	24.0
Belgium					
1938	732.0	6.7	13.6	64.1	22.3
1947	1,405.7	4.4	12.3	61.7	26.0
Denmark					
1938	334.9	1.1	3.3	89.9	6.8
1947	482.6	3.7	5.5	71.1	23.4
France					
1938	880.4	5.5	11.7	48.4	39.9
1947	1,787.7	2.7	8.3	40.4	51.3
Germany					
1938	2,111.4	2.8	15.4	52.5	32.1
1947	303.5	2.1	2.5	95.4	2.1
Greece					
1938	90.9	17.0	20.2	62.8	17.0
1947	56.8	13.8	14.3	66.4	19.3
Iceland					
1938	12.9	9.3	14.7	79.1	6.2
1947	44.7	5.1	5.1	68.0	26.9
Ireland					
1938	116.7	0.5	0.9	97.9	1.2
1947	156.3	0.8	0.9	97.8	1.3
Italy					
1938	552.1	7.4	15.7	41.5	42.8
1947	746.4	6.0	20.5	50.1	29.4
Netherlands					
1938	571.6	3.6	9.5	64.1	26.4
1947	700.8	2.7	8.0	63.6	28.4
Norway					
1938	193.2	7.7	11.3	72.5	16.2
1947	365.0	4.9	13.6	61.1	25.3
Portugal					
1938	50.4	5.4	12.5	60.7	26.8
1947	173.1	11.5	19.4	38.0	42.6
Sweden					
1938	464.5	9.0	14.0	66.7	19.3
1947	894.2	10.8	25.2	56.5	18.3
Switzerland					
1938	301.1	6.9	14.5	60.2	25.3
1947	763.3	12.1	31.4	48.1	20.5
Turkey					
1938	115.0	12.3	13.2	69.6	17.2
1947	223.3	23.6	24.3	49.8	25.9
United Kingdom					
1938	2,301.7	4.3	18.7	28.2	53.1
1947	4,582.4	4.2	16.9	27.5	55.6
Total (Exclusive of Germany and Austria:					
1938	6,717.4	5.6	13.4	50.0	20.3
1947	12,382.3	5.1	15.7	44.4	39.9
Total:					
1938	9,057.2	4.9	14.3	50.7	35.0
1947	12,770.0	5.4	15.3	45.8	38.9

4. Exchange Rates in the Future.

In considering the problem of exchange rates, it has been fully recognized that present exchange rates, including those established in the post-war period and agreed with the International Monetary Fund as an initial step, would not, in some cases, be appropriate throughout the life of the European Recovery Program.

Exchange rates must be considered in the light of the internal financial and monetary situation in a country, its production, the rate of capital investment, and the availability of United States assistance. The establishment of a stable exchange rate must be part of a coordinated program of fiscal, monetary, and economic stabilization. Thus budget policies must be such as to prevent undue increases in monetary circulation, expenditures must be held to proper levels, taxation increased, and reliance placed upon domestic savings, rather than central bank resources, to finance governmental requirements and investment programs, and the local-currency counterparts of ECA grants must be used in ways which promote financial stability.

The establishment and maintenance of permanent stable exchange rates require a high degree of internal financial and economic stability. In general, little advantage is to be gained by modification of exchange rates until this internal stability has been achieved, but there may be cases where an over-valued exchange rate, by hindering exports and stimulating imports, may militate against the attainment of stability. It should be emphasized that the primary purpose of the program is to restore the economies of Europe and that, in some cases, this aim may be defeated by premature action with regard to exchange rates.

The primary consideration in determining European exchange rates must be the restoration of viability to the European economy. This involves internal financial and monetary measures as well as modification of exchange rates and other policies necessary to increase exports. The United States objective in this area must be to reduce dependence upon extraordinary United States assistance, so that in 1952 the participating countries will be able to reach approximate balance (allowing for normal capital exports from the United States), by increasing exports of goods and services, relatively to imports, particularly to the dollar area.

Some of the countries in Europe have made greater progress than others in reaching these desired results. Their levels of exports have increased and appropriate portions have been sold to the Western Hemisphere. In other cases, the level of exports has been low, in comparison with the levels of production and imports, and relatively small portions of the exports have been sold in the Western Hemisphere. This condition may result from internal programs of rapid reconstruction, but to some extent it may also be the consequence of over-valued exchanges. Where modification of exchange rates is indicated, the participating country concerned, if a member of the

International Monetary Fund, will be expected to propose a new par value to the Fund, in accordance with its Articles of Agreement.

K. ECA FINANCING OF OFFSHORE PROCUREMENT.

"Offshore procurement" is a term used to describe procurement for dollars in areas other than the United States, its territories and dependencies. ECA financing of such purchases was authorized by the Economic Cooperation Act of 1948, which also required that to the maximum extent practicable ECA financing of petroleum and its products be made from sources outside the United States.

1. The Role of Offshore Procurement.

The importance and value of offshore procurement to the United States is that it makes possible progress in the European Recovery Program with a minimum impact on the United States supply of scarce commodities not easily spared by this country and at a minimum cost to the United States Treasury. In some cases, commodities purchased offshore either are not in sufficient supply in the United States to meet the essential needs of participants or the export of additional quantities might exercise undesirable upward pressure on domestic prices. To the participating countries the ECA financing of offshore procurement has been valuable in maintaining more normal trade relations with supplying countries outside the United States. Some supplying countries have been induced to continue a desirable movement of scarce essential goods to Europe in return for a wide variety of goods from the United States. Although the amounts of ECA-financed procurement have varied among supplying countries, the program has helped several countries to maintain significantly higher levels of trade, both with Europe and the United States, than would otherwise have been possible. However, in no case has the ECA financed the purchase of goods in a nonparticipating country simply to ease its dollar position or to permit it to remove import restrictions.

2. The Occasion for Offshore Procurement.

In their trade relations with countries other than the United States, OEEC countries face essentially the same financial problem that they face in trade with the United States. The needs of the participating countries for purchases in other countries sometimes are larger than their current exchange earnings from trade with those countries. Some of the needs have been and will continue to be financed by the other countries through acceptance of currencies other than dollars to settle accounts, extension of grants and credits, accumulation of European currencies, the purchase of European assets, new investment in Europe, and the retirement of debts due Europe. A large uncovered balance nevertheless remains for which payment in gold or dollars is required. Since the end of the war in order to make such payments Europe has obtained gold and dollars from reserves, from United States Government credits (notably the British loan), and more recently from ECA funds.

The ECA, in financing purchases by participating countries outside the United States, is concerned that every possibility of securing non-

ECA financing of the purchases in question be explored first. By pursuing and exhausting these possibilities, ECA encourages other countries to make financing available and stimulates participants and other countries to expand their mutual trade without dollar assistance.

The possibility of non-ECA financing of deficits with non-participating countries exists in three situations. (1) Bilateral trading arrangements between participating countries and non-participating countries frequently establish "offset accounts" in European or other currencies without requiring periodic gold or dollar clearing; under arrangements of this type the required purchases may be financed in the currency of account. (2) In particular, some non-participating countries have agreements with the United Kingdom on the use of sterling to clear accounts with countries in the Sterling Area and certain other countries holding sterling balances. The possibility then exists that sterling may be used to finance the required purchases. Thus, under the Intra-European Payment Plan, adopted in October, 1948, participating countries may use their sterling drawing rights to purchase anywhere within the Sterling Area, and, therefore, it is not necessary for the ECA to finance purchases in these countries. Other possibilities for non-ECA financing in sterling also may exist. (3) Finally, some non-participating countries themselves may be able to finance purchases required by the more credit-worthy participating countries.

The funds originally requested by OEEC countries were intended mainly to finance their dollar deficits with the Western Hemisphere. Hence, ECA has financed procurement in non-participating countries outside the Western Hemisphere only in exceptional cases. In general the purchases that have been financed represent urgent instances of goods not available in the Western Hemisphere in sufficient supply.

Since the Intra-European Payments Plan went into effect, ECA funds have not been used to finance purchases in participating countries except for small purchases in Switzerland and Portugal. Switzerland and Portugal, although members of the OEEC, participate only intermittently in the operations of the Payments Plan. ECA dollars are used for purchases in those countries only in special cases.

3. The Extent of Offshore Procurement Authorized.

A report of ECA financing of offshore procurement is published periodically showing commodities financed, source countries, and countries of destination. The seventh such report made to the Public Advisory Board, shows that by December 31, 1948, the ECA had authorized offshore procurement of commodities totaling $1,408.8 million, excluding ocean freight, from sources shown in Table 1.

Bread grains, non-ferrous metals, sugar, meat, and petroleum accounted for about two-thirds of the authorizations issued for financing from Canada and Latin America.

Machinery and vehicles from Czechoslovakia and Hungary and coal from Poland accounted for the bulk of the $31.6 million total ECA financing of purchases in Eastern Europe. Procurement of $258,000 of lead and copper from Yugoslavia was also authorized.

TABLE 1.

Authorizations for ECA Financing of Procurement Outside the United States.
Cumulative April 3-December 1, 1948.
(Millions of Dollars)

Non-Participating Countries:		
Other Western Hemisphere Countries		
Canada and Newfoundland	$593.4	
Latin America	353.3	$ 946.7
Eastern European Countries		31.6
Other Non-Participating Countries		185.5
Total Non-Participating Countries		$1,163.8
Participating Countries:		245.0
Total		$1,408.8

Petroleum from American companies operating in the Middle East accounted for $122.4 million of the $185.5 million total ECA financing of purchases in other non-participating countries outside the Western Hemisphere. As noted above, the Economic Cooperation Act specifically instructs the Administrator to assist in the procurement of petroleum products outside the United States in order to conserve domestic resources. Therefore, the ECA has financed a large fraction of oil imports required by Western Europe from the Middle East.

Imports of OEEC countries from Japan and the Philippines have to be paid in dollars and again these imports have been partly financed by ECA. Between April 3 and December 31, 1948, ECA authorized procurement amounting to $31.6 million in Japan and $32.6 million in the Philippines. Neither Japan nor the Philippines is in a position to extend credits and ECA has considered as justifiable procurement from these two countries, which are virtually on a dollar basis. Purchases in China have also, in some cases, been financed by ECA.

Procurement authorized in other non-participating countries outside of Europe and the Western Hemisphere has been principally of petroleum and products, fabricated basic textiles, and fats and oils. A few procurement authorizations were issued for purchases in the non-participating Sterling Area, prior to the adoption of the Intra-European Payments Plan in October, 1948.

During the second and third quarters of 1948 ECA financed a limited amount of purchases by participating countries in other participating countries. As explained in Section M below on Intra-European Trade and Payments, these funds were made available in the third quarter as ''supplementary allotments'', and were considered as dollar aid to the selling country rather than to the buying country.

4. Requirements for Offshore Procurement in Fiscal Years 1948/49 and 1949/50.

It is not possible at this time to forecast with confidence the amount of offshore procurement in the fiscal year 1950 or even in the three months of April-June 1949, because factors such as crop conditions, prices, credits, and other conditions of sale have a determining effect on the placement of orders and the arrangements for financing by the OEEC countries. It is probable, however, that the over-all aggregate value of ECA-financed offshore procurement will be reduced in the next fiscal year because of the anticipated improvement in the payments position of the OEEC countries with respect to those countries in which ECA financing of offshore procurement is now being carried on.

This anticipated improvement marks the progress of the European participating countries toward the attainment of their recovery goal. It is due principally to increased exports by participating countries. At the same time their deficit on current invisible account is expected to be materially reduced. These expected developments result from the improved economic health and higher production levels of the participating countries.

The ability and willingness of other non-participating countries, particularly those in the Western Hemisphere, to furnish assistance also appears to be declining. Nevertheless, the need for ECA financing of procurement in these areas will be lower because of the substantial expansion anticipated in Europe's exports. Relations of participating countries with the Other Western Hemisphere Countries and the prospect for financing by those countries is discussed in the next Section. ECA financing of purchases outside the Western Hemisphere may continue to be needed but will be small. At present, there are no plans to use the offshore purchase method for financing trade among the countries participating in the Intra-European Payments Plan although its employment under certain circumstances is not precluded.

L. RELATIONS WITH OTHER WESTERN HEMISPHERE COUNTRIES.

1. Introduction.

As Europe's economy revives and world supplies of raw materials and foodstuffs improve, the size of Europe's uncovered current balance with other Western Hemisphere (OWH) countries, for which dollar payment is required, is reduced. It is reduced by the expansion of exports from the OEEC countries to OWH countries, by reduced reliance upon imports, and by improved prices for imports in relation to prices of exports. Prospects for trade and payments of the OEEC countries with OWH countries are examined in section 2 below which analyzes Western Europe's need for financial assistance in covering requirements from Western Hemisphere countries other than the United States. In section 3 below the ability of Canada and Latin America to furnish such financial assistance is assessed.

2. Need of Participating Countries for Assistance in Financing Requirements from Other Western Hemisphere Countries.

Europe's need for assistance in financing purchases in OWH countries was substantially less in 1948 than in 1947 and is expected to be still smaller in the fiscal year 1949/50. The current account deficit of OEEC countries in Europe (not including Switzerland, Portugal and Turkey) with OWH countries is, perhaps conservatively, estimated to be $890 million in the fiscal year 1949/50 compared with an estimated $1,665 million in 1948 and $2,025 million in 1947.

The recent and prospective improvement is due to several circumstances. (1) As their ability to produce revives, OEEC countries are expanding exports to OWH countries. From 1947 to 1948 exports of OEEC countries to OWH countries increased 25 percent (from $1,025 million to $1,275 million); they are expected to continue increasing at that rate and in the fiscal year 1949/50 to be $1,740 million. (2) In addition, OEEC countries are increasing (net) sales of shipping and other services to OWH countries, and United Kingdom petroleum companies expect greater earnings in Latin America. These developments, the OEEC countries state, have lowered their net payments on invisible account from $275 million in 1947 to $200 million in 1948, and they expect an even greater reduction to $60 million in the fiscal year 1949/50. (3) Finally, OEEC countries are benefiting from lower prices resulting from improved world supplies of agricultural products. Among other Western Hemisphere products which experienced price declines by the end of 1948 are cereals, feedstuffs, fats and oils, and sugar. While prices of certain other imports increased, notably nonferrous metals, the general level of other Western Hemisphere export prices declined. On the price assumptions employed in the ECA estimates for fiscal year 1949/50 the value of imports is expected to fall further, from $2,775 million in 1947 and $2,740 million in 1948 (at then current prices), to $2,570 million in 1949/50.

The past and projected improvements in the trade and payments account of OEEC countries with OWH countries is summarized in Table 1.

TABLE 1.

Trade and Payments Account of Participating Countries in Europe with Other Western Hemisphere Countries.

1947, 1948, and Fiscal Year 1949/50 [a]
(Millions of dollars at then current prices)

	1947 [b]	1948 [b]	Fiscal 1949/50 [c]
Imports from OWH [d]	2,775	2,740	2,570
Exports to OWH	1,025	1,275	1,740
Merchandise Deficit	—1,750	—1,465	— 830
Net Invisibles [e]	— 275 [f]	— 200 [f]	— 60
Current Deficit	—2,025	—1,665	— 890

[a] Excludes Switzerland, Portugal, and Turkey.
[b] Merchandise trade from published Canadian and European trade reports.
[c] Summed from Table 4B for each Participating Country and rounded.
[d] Excludes petroleum products except for Fiscal 1949/50 which includes $15.7 million of petroleum products.
[e] Includes net payments by United Kingdom petroleum companies in Latin America.
[f] From OEEC submissions for Fiscal 1948/49.

a. Imports Required from Other Western Hemisphere Countries.

Commodities required by OEEC countries from Canada and Latin America cover a wide range of essential items, mostly foodstuffs, agricultural raw materials, and minerals. Wheat from Canada and Argentina has been of vital assistance to OEEC countries, especially the United Kingdom and Italy, in supplementing insufficient local harvests of bread grains. Canada and Argentina are expected to continue being important world exporters of this leading food item. Sugar, corn, linseed oil, oilcake and meal, meat, cotton, hides and skins, sisal, henequen, pulp, paper, quebracho, and lumber are other important agricultural and forestry items required by OEEC countries from OWH sources, and non-ferrous metals, including aluminum, copper, lead, nickel, tin, and zinc, are foremost among other raw materials required from these. Substantial quantities of petroleum are needed from Venezuelan oil fields. When these are supplied by United States companies, however, they have been shown as requirements from the United States. When they are supplied by British oil companies operating in OWH countries, only indirect dollar costs are involved, and these costs are reflected in the invisible payment account for the United Kingdom. Small quantities of oil are supplied by the governments of Venezuela and Mexico, and these are shown in 1949/50 as requirements from OWH countries.

OEEC countries (except Switzerland, Portugal and Turkey) proposed in their submissions for fiscal year 1949/50 to import $2,930 million of goods from Canada and Latin America. The ECA estimate is $2,570. It is lower partly because the volume of some imports has been reduced in line with expected limitations on availabilities and partly because, in the light of more recent information, lower prices have been used in valuing requirements for coarse grains, fats and oils, sugar, meat, and coffee than were assumed generally by participating countries. Higher prices have been used in valuing requirements for oilcake, cotton, and non-ferrous metals than OEEC countries anticipated, but on balance the effect of price adjustments has been to reduce the value of imports required from OWH sources. The adjustments for price and volume have brought total imports more into line with recent experience as comparison with 1947 and 1948 in the preceding table shows.

In the event that availabilities in the OWH countries prove to be greater for short-supply items than now anticipated, import requirements of OEEC countries will be larger than is shown in Table 1.

b. Exports to Other Western Hemisphere Countries.

The $1,740 million allowance in Table 1 for exports to OWH countries in fiscal year 1949/50 is only slightly less than the $1770 million proposed by OEEC countries in Europe (excluding Switzerland, Portugal, and Turkey). In Table 2 the export programs of OEEC countries (excluding Switzerland but including Portugal and Turkey) to Canada and Latin America proposed for fiscal years 1948/49 and 1949/50 are compared by major product classes with the 1947 exports reported by OEEC in its *Report to the Economic Cooperation Administration on the First Annual Programme.**

TABLE 2.

Exports of Participating Countries in Europe to Canada and Latin America by Major Product Classes, 1947 and Programmed by OEEC for 1948/49 and 1949/50 [a]

	Value of Exports			Change in Exports			
To Canada:	1947	1948/49	1949/50	1947 to 1948/49	1948/49 to 1949/50	1947 to 1948/49	1948/49 to 1949/50
	Millions of dollars			*Millions of dollars*		*Percent*	
Agricultural Products	14.2	17.6	25.9	3.4	8.3	24	47
Solid Mineral Fuels	0.6	2.3	3.4	1.7	1.1	283	48
Ores and Metals	4.2	13.8	10.3	9.6	— 3.5	229	—25
Textile Materials and Products (excluding clothing)	82.4	155.6	162.0	73.2	6.4	89	4
Machinery and Equipment including Transport Equipment	34.0	55.3	53.6	21.3	— 1.7	63	— 3
Other Goods	72.4	120.4	151.5	48.0	31.1	66	26
TOTAL	207.8	365.0	406.7	157.2	41.7	76	11
To Latin America:							
Agricultural Products	40.8	59.3	67.5	18.5	8.2	46	14
Solid Minerals Fuels	—	22.2	27.3	22.2	5.1	—	23
Ores and Metals	28.4	115.1	127.5	86.7	12.4	306	11
Textile Materials and Products (excluding clothing)	126.6	129.7	196.4	3.1	66.7	3	51
Machinery and Equipment including Transport Equipment	279.0	372.6	456.6	93.6	84.0	34	23
Other Goods	269.1	364.4	485.1	95.3	120.7	35	33
TOTAL	743.9	1063.3	1360.4	319.4	297.1	43	28
GRAND TOTAL	951.7	1428.3	1767.1	476.6	338.8	50	24

[a] Source: Figures for 1947 and 1948/49 are from the *First Annual Programme* of the OEEC, tables 4 for 1947 and 5 for 1948/49 except that exports to Canada for 1948/49 as published are in error and have been adjusted using the individual OEEC country submissions; figures for 1949/50 are from OEEC country submissions. Excludes Switzerland.

Exports to OWH countries are estimated by the OEEC to be about $475 millions or 50 percent greater in 1948/49 than in 1947. This expansion appears feasible in light of 1948 trends in published trade data. Canadian trade reports for eleven months of 1948 show imports from European participants at an annual rate of $350 million (including Portugal and Turkey but excluding Switzerland) compared with $365 millions projected for 1948/49. Published European trade reports for four to seven months of 1948 show exports to Latin America at the annual rate of $930 millions compared with $1063.3 millions projected by OEEC for 1948/49.

A further increase of about $340 millions (24 percent) is projected for 1949/50 in exports to all OWH countries by OEEC. About $300 million of this increase is expected to come in exports to Latin America which are expected to expand about 28 percent. While the target represents a volume of exports a little more than 20 percent greater than pre-war, the economies of the OWH countries have grown, and the

* Annex, Table 4 for 1947 and Table 5 for 1948/49. The total of exports to OWH countries shown for 1947 in Table 1, $1,025 million, is higher, despite the exclusion of Portugal and Turkey, than the total in Table 2, $951.7 million. The OEEC *Report* notes that its figures on commodity exports are not in every case complete, and the total of such exports is about 6 percent below the total of exports it gives in the balance of payments tables. This would account for most of the difference between exports in Tables 1 and 2.

large volume of exports projected for 1949/50, at prices assumed to be current then, would restore little more than half of Europe's pre-war participation in other markets. This is shown in Table 3 which assumes that OWH imports from the United States and other areas will be about the level prevailing in 1948.

Restoration of European participation is expected to be farther advanced in Canada than in Latin America by 1949/50. Canada would draw an estimated 16 percent of its imports from OEEC countries compared with 22 percent pre-war and 9 percent in 1947, whereas Latin America would draw an estimated 25 percent from OEEC countries in fiscal year 1949/50 compared with 46 percent pre-war and 15 percent in 1947. On the basis of these estimates there seems little doubt that OWH countries could absorb the exports projected by OEEC countries in 1949/50 if the goods are competitively priced and suited to the market.

However, prices of exports may be too high and the composition of the program may not be adjusted to Western Hemisphere markets. Indications are that many European export prices are higher than prices of comparable U. S. merchandise. As was noted in the preceding section, the ECA projection allows for some decline on the average in prices of products that OEEC countries import from OWH

TABLE 3.

Source of Imports by Canada and Latin America
1938, 1947, 1948, and Fiscal Year 1949/50

(in percentages)

	1938	1947	1948	Fiscal Year 1949/50
Imports of Canada:				
From OEEC Countries [a]	22	9	14	16
From U.S.A.	63	77	69	69
From All Other Sources	15	14	17	15
Total	100	100	100	100
Imports of Latin America				
From OEEC Countries [a]	46	15	19	25
From U.S.A.	35	63	57	52
From All Other Sources	19	22	24	23
Total	100	100	100	100
Imports of Canada and Latin America				
From OEEC Countries [a]	38	13	17	22
From U.S.A.	44	67	61	58
From All Other Sources	18	20	22	20
Total	100	100	100	100

[a] All Participants in Europe, including Switzerland.

countries. While some allowance has also been made in the ECA program for a corresponding reduction in prices of exports to OWH countries by the OEEC countries, this adjustment is very small in relation to the total value of OEEC exports in question. Furthermore, Europe's export program, while likely to be realized in Canada, may not be properly tailored to markets in Latin America.

The important expansions of exports to Canada between 1947 and 1948/49, as may be seen in Table 2, are in Textiles, Machinery, and equipment, and the category for "Other Goods" (among which chemicals, pottery, glass, and apparel are important). The increase in textile exports, $73.2 million, accounts for nearly half the total increase. The further increase in textiles in 1949/50 is modest and seems likely to be realized. The principal source of gain in 1949/50 is largely in "Other Goods" and cannot be evaluated. On the whole the 11 percent increase in total value of exports to Canada between fiscal years 1948/49 and 1949/50 appears feasible, and Canada might even offer a market for larger exports than planned by OEEC countries. By contrast the projected expansion of exports to Latin America seems optimistic.

Exports of Machinery and Equipment (including transport equipment), Ores and Metals which includes semi-manufactures of iron and steel and non-ferrous metals), and "Other Goods" contribute most to the $320 million total increase between 1947 and 1948/49 in exports to Latin America shown in Table 2. Among "Other Goods", cellulose, pulp, and paper, chemicals and related products, metal manufactures, and glass are particularly important. Textile exports shown in Table 2 increase only slightly ($3 millions) between 1947 and 1948/49. Agricultural products (largely fish, fruits, and beverages) increase nearly $20 millions or 46 percent over 1947.

For 1949/50 OEEC countries are counting on a continued large increase in exports of machinery and equipment ($84 millions or 23 percent), a large increase in exports of textiles ($66.7 millions or 51 percent) a further increase in exports of agricultural products ($8.2 millions or 14 percent), and a large increase in exports of "Other Goods" $120.7 millions or 33 percent). The national development programs of Latin American governments lead them to place a high priority on imports of machinery, equipment, and capital goods generally and to discourage imports of soft consumer goods which they consider less essential. The expanded exports of textiles and agricultural products projected by OEEC countries do not appear likely to be realized and exports in Table 1 for that reason may be overstated.

However, export targets of machinery, equipment, and capital goods have probably been set by OEEC countries rather with reference to the likely available supply of such items than with regard to limitations of market demand. It may be that failure to achieve targets for exports of soft goods can be remedied by an expansion of exports of machinery and equipment, and like items. Western Germany in particular could increase exports of these goods and would have little difficulty finding ready acceptance for them in Latin America. The export program of Bizone contributes about $50 million to the $1360 million of exports programmed by OEEC countries for Latin America in fiscal year 1949/50.

Expansion of exports of machinery, equipment, and capital goods beyond present targets would help offset the prospects that high prices and the character of available European exports may defeat the export program. The continued inability of Latin American countries to earn enough dollars from Europe and other areas to satisfy demand for dollar imports is a further circumstance favoring restoration of Europe's pre-war participation in Latin American markets. It tends increasingly to make Latin American governments favor soft currency imports even though these may be high-priced or less essential articles. Latin American governments are also prompted by a shortage of dollars to enter into commercial and financial agreements to expand trade with European countries on a reciprocal basis. Numerous agreements of this character were concluded in 1948, and it may be anticipated that the dollar shortage will favor the further conclusion of such agreements.

Too great reliance appears to be placed in the projected export program of OEEC countries on getting back pre-war markets for exports and on selling them at the high prices prevailing late in 1948. However, the possibility of adjusting the composition of European exports to market demands and the effects of the dollar shortage may enable Europe to realize the exports allowed for in Table 1. OEEC countries should make a greater effort to shape export programs to the needs of the Western Hemisphere market, increasing capital goods exports and diverting European resources from producing exports of soft consumables.

3. Financing by Other Western Hemisphere Countries.

The ability and willingness of OWH countries to extend financial assistance to participating countries may be expected to fall if the prices of their principal exports fall or if their ability to earn dollars from net exports to Europe falls. Repayment from OEEC countries on assistance previously extended tends to offset these adverse effects. It is the view of the ECA that OWH countries receiving such repayment should be able to furnish new assistance at least in that measure.

In the fiscal year 1949/50 OWH countries are expected to provide dollar and non-dollar financing in the amount of about $160 million to participating countries and to receive at least $35 million of dollar and non-dollar repayment on past assistance. In comparison, it is estimated that during the fiscal year 1948/49 such financing by OWH countries will total $375 million, and repayments will be $75 million. This includes sterling financing from the sale of British assets in Argentine under the Andes agreement, but it does not include the value of assistance which Canada extended the United Kingdom through supplying wheat at prices lower than those in this country. The value of this latter assistance may be about $50 million in the fiscal year 1948/49.

The reduced allowance for OWH financing and assistance must be considered in relation to the precipitous decline in the export surplus of OWH countries with OEEC countries shown in Table 1 above, from $2025 million in 1947 to $890 million in 1949/50, the decline in gold and dollar reserves of important Latin American countries, and the deterioration (from the point of view of the OWH countries) in prices of their exports relative to prices of goods they import. Countries losing foreign exchange reserves and suffering declining export prices are correspondingly less able than heretofore to extend new credits, but Europe is able to receive a greater return on its exports.

M. INTRA-EUROPEAN TRADE AND PAYMENTS.

1. The Significance of Intra-European Trade.

A summary treatment of intra-European trade and the Intra-European Payments Plan is contained in Chapter II-C above. A fuller analysis is set forth in the present section.

A few data on trade among the participating countries reveal the importance to European recovery of this trade. The table given below shows that trade among the participating countries has amounted in the post-war period to between 45 and 48 percent of their total exports and to between 29 and 31 percent of their imports. Before the war, imports of participating countries from each other were almost four times as large as their purchases from the United States. With the striking increase in importance of the United States as a European supplier, imports of American origin almost equalled intra-European trade in 1947. During the first six months of 1948, however, the ERP area outranked the United States as a source of supply for the individual ERP countries by approximately 50 percent.

Trade Among ERP Countries in Relation to Their Total Imports and Exports and to Imports from the United States

(1)	(2) Total Exports to Participating Countries [1] (In millions of $)	(3) As Percentage of Total Exports of Participating Countries	(4) Total Imports from Participating Countries [1] (In millions of $)	(5) As Percentage of Total Imports of Participating Countries	(6) As Percentage of Imports of Participating Countries From the U.S.[2]
1938	4,591	51	4.936	39	381
1946	4,238	48	4,682	31	129
1947	5,854	46	6,400	29	108
1948 [a]	3,382	45	3,627	31	163

[a] First six months.

[1] All exports are on f.o.b. basis; all imports on c.i.f basis.

[2] Imports from U.S. compiled from U.S. export data with 10 percent added for shipping costs to importer.

Source: Department of Commerce (national statistics) except, in 1948, for Bizone (OMG Statistical Annex #17) and Greece (US Consular Dispatch #165 from Athens).

In qualitative terms, trade among the European countries is likewise of considerable importance. This trade traditionally includes the flow to other participating countries of coal from the Ruhr and the United Kingdom, of steel from Belgium, of potash and iron ore from France, of woodpulp and iron ore from Sweden, of fruits and vegetables from Italy, as well as an active interchange of textiles, machinery, vehicles, and a wide range of specialized manufactures. If the overseas dependencies of European countries are included, the range of key commodities traded within the area is widened considerably and includes phosphates and iron ore (French North Africa), copper (Belgian Congo and Rhodesia), and foods and raw materials from Malaya, French West Africa, French Indo-China, and Indonesia.

2. Post-war Development of Intra-European Trade.

The revival of mutual trade after the war presented the European countries with a serious problem. The pre-war pattern of trade in Europe has been destroyed through the partial elimination of Germany and of Eastern Europe as customers and as sources of supply. Price systems were distorted by wartime subsidies, controls of varying efficiency, and black markets. Exchange rates were often artificial and, at best, untested. Reserves of gold and hard currency had to be husbanded carefully in order to pay for the huge requirements for essential imports available only from the dollar areas. Many countries were slow in returning foreign trade to private channels. Under these conditions, it was natural that European countries should resort to trade and payments agreements which were bilateral in character. This course followed the pattern developed during the '30's when the traditional forms of dealing and of commercial financing had broken down in varying degrees. The following paragraphs from a recent report (A Survey of the Economic Situation and Prospects of Europe, United Nations, Economic Commission for Europe, Geneva 1948, p. 98) describe the main features of the typical bilateral agreement negotiated in the post-war period:

> "While the terms of the trade agreements concluded among European countries show considerable variety, they tend to have the following principal features in common: the contracting Governments agree to two lists of commodities, each of which represents one country's exports and the other country's imports, and they further undertake to issue the necessary export or import permits up to the limits of quantities or values specified in the lists. The agreement is thus essentially permissive in character and does not necessarily ensure that delivery of the products named will actually be effected, except in so far as exporters and importers in the respective countries may negotiate deals in these commodities or in so far as the Governments themselves may enter into definite contracts. Provision is also usually made for the appointment of a mixed commission to watch over the operation of the agreement and to modify commodity lists when necessary.
>
> "To minimize the demand for gold or dollars, bilateral trade agreements are usually accompanied by bilateral payments agreements stipulating that settlements are to be made in the currency of one or both of the contracting parties, funds for this purpose being ordinarily provided through mutual credit facilities established between the central banks of the two countries. Such reciprocal credits eliminate the necessity for day-to-day balancing of accounts, and may, in fact, permit the building up of substantial creditor and debtor positions over a period of time. Limits, which are sometimes wide, are customarily set to the amount of these reciprocal credits, and provision may be made for ultimate settlement of creditor or debtor positions in gold or by other means, unless the period covered by the agreement is subsequently extended."

In addition to the factors listed, an important reason for the adoption of the bilateral payments agreement was the attempt on the part of all European Governments to obtain specific goods to relieve specific shortages. In order to obtain essential imports, a country generally had to be prepared to export some essentials of its own; and, to sell non-essentials, a country had to stand ready to relieve its trading partners of part of their surplus of luxury goods. Finally, a country with a surplus of goods in urgent demand could impose upon its trading partners "tie-in" sales which required that a certain percentage of non-essential items be purchased as well.

All these problems necessarily imply the quantitative and qualitative regulation of trade on a bilateral basis. But certain consequences of the adoption of bilateral methods were soon apparent. Normal trade patterns were distorted. Loss of markets for primary production restricted the supply of the by-products of that production. Loss of markets for by-products made the primary product more costly. In spite of these difficulties, trade revived rapidly in 1945 and 1946. The reciprocal credit margins provided in most payments agreements permitted trade to expand without rigid bilateral balancing until such time as the credit margins themselves were exceeded and settlement of the overdraft had to be made in gold or dollars.

In the early part of 1947 definite strains in the bilateral payments arrangement became visible. Practically no progress in the expansion of intra-European trade was made in the course of 1947 beyond the level reached during the last quarter of 1946. The reasons for this stagnation were the increased payments difficulties that were encountered throughout 1947. In many crucial payments relationships, bilateral balance was not achieved and credit lines became exhausted. At the same time, practically all European countries were more and more hard pressed to find gold or dollars for financing their essential purchases from the Western Hemisphere. The intra-European debtors were therefore increasingly unwilling to transfer gold or dollars in settlement of their debts to other European countries. The European creditors became equally unwilling to extend new credits to the debtors, because of the poor prospects of eventual repayment and because of their concern over the internal inflationary pressures created by a surplus of exports over imports. This latter situation, which for hundreds of years had seemed so desirable that it was termed a "favorable" balance of trade, was now renamed "unrequited exports" and was considered highly undesirable.

Many European countries had high hopes that payments difficulties would be mitigated by the British attempt to restore convertibility of currently accruing sterling into dollars in the summer of 1947. A number of European countries thought that as a consequence of such convertibility and of the arrangements they had entered into with the United Kingdom in anticipation of it, they would be able to transfer their intra-European surpluses into dollars. But the very acuteness of the dollar shortage in 1947 made a scheme providing for conversion of any European currency into dollars both dangerous and unworkable. Moreover, the temporary convertibility of sterling actually encouraged the restriction by some continental countries of imports from the Sterling Area in order that they might be able to retain or acquire sterling for conversion into dollars. This aggravated rather than alleviated the intra-European payment difficulties and such pressure on sterling was partly responsible for the short-lived convertibility of that currency.

In the meantime, the difficulties of carrying on intra-European trade along established lines became more and more pronounced. The multiple exchange rate systems which were introduced in Italy and France led to retaliatory actions on the part of other countries and made the establishment of new controls necessary. Several debtor countries were forced to abandon the clearing system described above and adopt the clumsy process of individual barter with different exchange rates governing or implicit in each transaction. Early in 1948, trade between France and Belgium and between France and Switzerland came to a standstill for several weeks as a result of the overdrawing by France of its credit facilities and of its creditors' unwillingness to extend further credit. Increasing difficulties were also caused by the situation of the Bizone as virtually a part of the dollar area.

The framework of bilateralism which had at first been instrumental in restoring trade after the war became, after a while, a brake on further progress. The higher the level of trade between two countries, the less likely it is that trade between them can be expanded further in both directions with advantage to both. The effort to achieve bilaterally balanced trade will often prevent full utilization of actual or potential exporting capacities. As the volume of trade grows, therefore, it becomes increasingly important to provide facilities for offsetting a country's trading deficit with one partner by its credit surplus with another. In the absence of a mechanism which insures such multilateral offsetting, trade will either stop growing or its growth will result in the accumulation of burdensome deficits which soon become in themselves a check on further expansion. To clear these debit balances it is necessary for the debtor country to use its hard currency reserves.

In the post-war period, therefore, trade among the Western European countries has shown increasing tendency to be conducted in dollars as credit facilities were exhausted and bilateral balancing proved more difficult. These circumstances caused the limited dollar resources of the participating countries to be used to finance European trade when in fact these reserves were already inadequate to finance trade with the dollar areas.

In spite of these obvious deficiencies, it can easily be understood why the European countries have clung for so long to the pattern of bilateralism. In the first place, no tested alternative was readily available. Secondly, the flexibility necessary for multilateral trade means that advance planning can be done only in aggregate terms, if at all, and countries have felt that if they did not plan in detail they risked further losses of gold and dollars. Thirdly, the return from bilateralism to a limited system of multilateral payments requires a simultaneous and conscious decision on the part of all countries intending to participate in the system. Bilateralism, on the contrary, spreads easily and without deliberate intent from one pair of countries to the other. Finally, the system of bilateralism provides every country participating in it with the pleasant illusion that it will be able to utilize to the full its bargaining power and its skill in commercial negotiations. Although this obviously cannot be true for all countries at the same time, each may well believe that it will be able to stall off its creditors while collecting from its debtors. Short-run considerations of this kind have been among the most important obstacles standing in the way of a more rational system of trade and payments among European countries.

3. Objectives.

The potential contribution of effectively organized and substantial intra-European trade to European recovery is threefold:

a. Contribution to Recovery.

A free expansion of trade among the participating countries should mean a better utilization of their respective resources and thereby greatly help the recovery effort. An increased specialization by the participating countries is desirable in order to reduce costs and make European goods more competitive in world markets. Such increased specialization will lead not only to increasing exports from the ERP area to the outside world, but also to an increase in intra-European trade as well.

b. Contribution to the Reduction of the Dollar Deficit.

Intra-European trade can make an important contribution to the goal of independence from extraordinary outside assistance. By importing from each other commodities which are now supplied by the Western Hemisphere, the participating countries could substantially reduce their dollar deficits. At the same time, emphasis should not be placed exclusively on the expansion of intra-European trade; there are opportunities for diverting exports from other European countries to the Western Hemisphere.

By contributing in this fashion to the reduction of the dollar deficit of the participating nations as a group, intra-European trade may become more unbalanced in the short run. Thus, if an exportable surplus of steel appears in one European country, the other participating countries ought to take immediate advantage of this situation by shifting their purchases from the Western Hemisphere to this new source of supply without waiting to develop exports or other means of payment for the steel.

This recommendation follows from the general judgment that Europe's dollar deficit with the Western Hemisphere is fundamentally more recalcitrant than any unbalance in the payments relations among European countries. Several complete reversals from debtor to creditor position in intra-European trade have actually taken place during the post-war years. Thus, France accumulated sterling during 1947 and exhausted its balances rapidly during 1948. Italy was in an all-around debtor position in early 1947 and became an all-around creditor in the course of 1948. While it would not necessarily be correct, under any and all circumstances, for a participating country to substitute a decrease in its dollar deficit for an increase in its intra-European deficit, the closeness, flexibility and multiplicity of trade ties in European countries are good reasons for accepting the general presumption that such shifts are desirable and conducive to eventual equilibrium.

c. Contribution to Improved Balance in Intra-European Payments.

Although an increase in the unbalance in intra-European trade may thus be desirable under certain circumstances, the present pattern of intra-European payments reveals a number of countries with unduly large net intra-European surpluses or deficits. (In a multilateral system no problem is presented by a country which has large surpluses with some of its trading partners in Europe, while running equally large deficits in other directions.)

It is not necessary to aim at an intra-European payments pattern after 1952, in which every country is in perfect balance with the rest of the ERP area as a whole. Presumably some countries may best approach balance in their external accounts by developing or maintaining an intra-European surplus, while decreasing their deficits with other areas, including the Western Hemisphere. Other countries should be able to earn some dollars on current account, with which they might settle their European deficits. There is no reason to believe that the participating countries will all achieve independence from extraordinary United States assistance at the same time, nor should balanced payments relations with the dollar area be considered as a barrier beyond which it is impossible to move.

It is clear, however, that no country should count on being able to earn substantial amounts of dollars by reason of its credit position with respect to other participating countries. None of the continental Western European countries was a substantial dollar earner in the pre-war years. In fact, European dollar purchases depended heavily on British ability to convert sterling into dollars and on a large deficit in British trade with continental Europe. Present British plans do not envisage the recreation of such a situation by the end of the ERP period. Consequently, even sterling convertibility would not assure Western Europe of this pre-war source of dollars. Similarly, it would be over-optimistic for any of the participating countries to expect a large surplus on its current account with the dollar area for the settling of continuing deficits with Europe. In the course of the European Recovery Program it will therefore be necessary for those countries with particularly large intra-European net surpluses or deficits, such as Belgium, France, the Bizone, and the Sterling Area, to work toward greater equilibrium in their intra-European accounts.

To summarize, a mechanism must be found:

(1) To permit an expansion of mutually advantageous trade in Europe;

(2) To make possible temporary deficits in bilateral intra-European trade relationships in the interest of reducing Western Hemisphere dollar deficits; and

(3) To assist in the elimination of large net surpluses or deficits in intra-European relations which cannot be sustained in the long run.

These objectives may conflict with one another in specific situations. But it is important to keep all of them in mind when dealing with specific policy issues, and to test against them any attempt at dealing generally with the intra-European payments problem.

4. Chronology of the Payment Scheme.

The problem of intra-European payments was first raised by the Benelux delegation to the Paris Conference of the Committee of European Economic Cooperation (CEEC) of July-September 1947. The desirability of putting the existing payments on a multilateral basis and of obtaining dollar aid for the settling of balances was recognized in the CEEC Report. Following the Paris Conference of the Committee of European Economic Cooperation, monthly meetings were held by a Committee on Payments Agreements and on November 18 the First Agreement for Multilateral Monetary Compensation was signed in Paris by Belgium (acting also for Luxemburg), The Netherlands, France, and Italy.

The signatory governments, together with representatives of Denmark, Norway, Sweden, the United Kingdom, Switzerland, and Greece, agreed to carry out multilateral compensations monthly. A simplified example of the way such compensations worked follows: Suppose that during one month Italy develops a debt to France of $5 million, France develops a debt to the United Kingdom of $5 million, and the United Kingdom develops a debt of $5 million to Italy; a multilateral clearing would wipe out these debts without the transfer of funds. According to this first Agreement, such possible compensations were to be suggested by the Bank for International Settlements, which was designated as the central administrative agency. Authority to make actual offsets was to be communicated by the countries to the BIS. In subsequent months Denmark, Greece, Norway, Sweden, the United Kingdom, and the French and Anglo-American zones of Germany adhered to the agreement as occasional members, i.e. reserving the right to decline any individual compensation operation proposed by the BIS.

In order to facilitate the movement of goods in intra-European trade, the ECA during the second and third quarter of 1948 made available a limited amount of dollars for purchases in participating countries. In the third quarter of 1948, these funds were given in the form of supplementary allotments to the buying country. The distinguishing feature of these supplementary allotments was that eventually they were not to be charged in the distribution of ECA funds as dollars allotted to the importing country but rather as dollars allotted to the exporting country, since they provided the latter with dollars needed for Western Hemisphere purchases.

These supplementary allotments, therefore, were first used by the debtor country to finance the purchase of goods in intra-European trade and second, to finance a part of the Western Hemisphere purchases of the exporting country.

This method of financing intra-European trade was not considered more than a temporary device. In Paris, the OEEC countries meanwhile were considering plans for stimulating trade among the participating countries. In the plan which was finally agreed upon, the OEEC and the ECA adopted the "conditional grant" method rather than the "offshore purchase" method to assist in the financing of European trade. Under this plan, the dollars are given directly to the creditor country on the condition that it finances the bilateral surpluses with its debtor countries in its own currency. In addition the plan broadens the scope of the clearing agreement of November 1947 by providing for the membership of all participating countries and for the automatic clearing of debts (first-category compensations) on a multilateral basis of the countries receiving United States aid. The Agreement for Intra-European Payments and Compensations which embodies this plan was signed by the participating countries in Paris on October 16, 1948.

5. Appraisal of the Agreement for Intra-European Payments and Compensations.

The Agreement for Intra-European Payments and Compensations, is designed to overcome some of the difficulties in intra-European trade described in the foregoing pages. While it was realized by all parties concerned that European recovery would eventually require a much freer flow of trade and a multilateral system of payments on current account, it was also recognized that development in that direction could take place only gradually and had to go hand in hand with the progress of domestic recovery and the achievement of internal monetary stability.

The plan itself is not and does not pretend to be the full answer to the European trade and payments problem. In subscribing to it, however, the participating countries have taken some important first steps in providing additional elasticity to European trade and in freeing commerce from its post-war shackles. The ultimate success of the plan will depend upon the speed with which further steps in that direction will be taken and the extent to which the European countries cooperate in making it effective.

a. Contribution of the Agreement to Intra-European Trade.

The intra-European payments agreement provides two partial answers to the difficulties which threatened to reduce intra-European trade even below the modest levels attained since the end of the war. It provides a means of financing a large part of European trade deficits and it enables the participating countries to settle part of their deficits on current account on a multilateral basis. In addition, it starts the individual European countries thinking in terms of their trade and payments with the participating area as a whole, provides a great amount of useful information on the subject, and thereby prepares the ground for further progress. The extent to which the payments agreement encourages intra-European trade can be seen from the estimate that net drawing rights of $565 million will finance a trade to the value of $810 million.

The threatened exhaustion of European credit facilities and the inability of the European debtor countries to settle their current trade deficits by the payment of dollars or the shipment of gold to each other made it necessary that some action be taken to keep goods moving in intra-European trade. The payments plan, therefore, provides that the creditor countries shall finance their estimated payments surplus with the European debtor countries for the fiscal year 1948/49 by giving the latter grants (drawing rights) in the currency of the creditor country. Debtor countries may use the drawing rights for the purchase of goods from the creditor country. Out of the total ECA dollar aid extended to the creditor countries, an amount equivalent to these drawing rights is set aside as conditional aid, which will only be firmly allotted by the ECA when the drawing rights have been utilized by the debtor country. The payments surplus is estimated bilaterally between the creditor and each of its debtors and conditional aid corresponds to the gross amount of these surpluses rather than to the net surplus of the creditor with the rest of the ERP area.

The plan does away with the necessity of achieving equality of imports and exports between pairs of countries and also permits the individual participating countries to finance a large part of their net deficits or net surpluses with the ERP area as a whole. It should thus permit a greater volume of trade than would otherwise be possible and also provide some room for the reduction of dollar deficits by temporary increases in intra-European deficits.

It should be emphasized that this result is achieved without any additional cost to the United States. In providing the dollars necessary to cover essential dollar imports from the Western Hemisphere, a fraction of the dollars allotted to each country is made conditional upon that country's extension of drawing rights to its prospective European debtors on current account. The fact that a participating country makes a net contribution to other European economies does not necessarily lead to an increase in its total dollar allotment of ECA funds. If it should, a redistribution of total ECA dollar aid among European countries would be necessary; other countries would obtain fewer dollars to finance Western Hemisphere purchases than originally calculated as they would receive larger net contributions of goods and services from their European trading partners. In this fashion, it is possible to combine the aid extended by the United States with the effort at mutual help and cooperation undertaken by the participating countries.

The second feature of the plan provides that the participating countries shall be able to clear their monthly debits and credits with one another "multilaterally" if by doing so debit and credit balances of the countries involved are reduced equally. The previous consent of the participating countries receiving United States aid is not required. In this way, credit margins will be re-established to some extent; countries will be enabled within limits to pay for their imports from one country by exports to another country; and their drawing rights will go farther. This part of the agreement represents an extension to all the participating countries of the limited compensation agreement concluded between France, Italy, and the Benelux countries in November 1947, described above.

b. Limitations of the Payments Plan.

The progress marked by the present plan should not conceal its inherent limitations. On the contrary, a full understanding of these limitations is essential for considering and appraising the problems involved in taking the next steps for expanding European trade and achieving a truly multilateral system of trade and payments. These limitations can be conveniently grouped under three headings:

(1) The essentially bilateral character of the trade on which the plan is based;

(2) The limitations of the present compensation agreement; and

(3) The lack of incentive to achieve a more balanced position.

The Bilateral Basis of the Plan. As mentioned above, estimates of bilateral deficits are used as the basis for establishing the drawing rights of the European debtor countries. In arriving at these estimates, the views of the creditor and debtor countries as to the probable magnitude of their respective exports and imports to and from one another had to be reconciled. This procedure involved bilateral bargaining, the result of which may or may not coincide with the probable or desirable pattern of trade among the two countries.

In view of this method for arriving at an estimate of drawing rights, and because of the considerable difficulties involved in forecasting bilateral net balances among sixteen countries, it would not be surprising if the actual pattern of trade diverged significantly from the initial estimates.

Programming of bilateral trade balances among European countries is more subject to error than the forecasting of Europe's Western Hemisphere deficit, first, because the balances are a much smaller percentage of total trade turnover and, second, because the intra-European trade structure is much more pliable than Europe's trade with the Western Hemisphere. Furthermore, one of the most important objectives of any European payments mechanism should be to enable the participating countries to take immediate advantage of any newly emerging supply availabilities within the ERP area. It might, therefore, have been desirable to provide much more flexibility in the plan by making it possible for all countries to become debtors up to a certain amount and to use drawing rights interchangeably for net imports from the other participants. However, the desire of European countries to know in advance the amount of dollars that would be at their disposal and the restrictions imposed by existing bilateral payments agreements, particularly the provision for covering deficits above a certain amount in hard currencies, made it impossible for such a method to find acceptance at the present time. A limited transferability of drawing rights has been provided for in the present plan.

The present plan is still fundamentally bilateral, for the essence of bilateralism is not the equality of imports and exports but the advance determination of imports and exports in order to achieve a given relationship between each pair of countries. Under the present plan, the European countries still have to forecast their imports and exports on a bilateral basis and are, therefore, unable in many cases to take full advantage of new market situations. The advance determination of the current account balances also forces a certain amount of trade in goods which, under present conditions, might be considered by the debtor countries as less essential for their immediate recovery. These goods, however, have to be accepted in order to obtain the desired quantity of more essential commodities.

The inherent rigidities of the plan make it all the more necessary that it be administered with a maximum of flexibility. Important differences between the forecast and actual balances will result in the premature exhaustion or the under-utilization of drawing rights, and may give rise to a desire to transfer drawing rights from one country to another. Such developments will have to be considered individually and in the light of the actual performance of the countries involved.

Limitations of the Compensation Agreement. As indicated above, the previous agreement on compensations, now incorporated in the payments plan, is only the first step in the direction of a multilateral system of clearing current accounts. Only a compensation which will reduce the outstanding debit and credit balances of all the participants involved equally (so-called first-category compensations) can be performed by the Bank for International Settlements, acting as agent, without the previous consent of these countries.

A more comprehensive clearing involves the increase in existing credit and debit balances or the creation of new ones (second-category compensations), and requires the previous consent of the participants. For example, Denmark may be in debt to Belgium and have no Belgian francs with which to pay, but it may have sterling. For a "second-category compensation" to occur under these circumstances, Belgium must be willing to accept the sterling in discharge of the Danish debt and the United Kingdom must also give its consent to such use of sterling.

For a first-category clearing mechanism to work effectively it is necessary that the participating countries be in fairly close over-all balance. This means that debits toward some countries should be more or less offset by surpluses with other countries. Under these conditions, a first-category compensation could achieve a general and significant reduction of balances. However, this is not the situation which confronts Europe today. The trade pattern emerging after the war indicated that there would be a few creditor countries in Europe whose goods were in great demand and a number of debtor countries which were unable to balance their imports with exports to any country. A third group of countries was somewhere in between these two positions.

To achieve a considerable amount of clearing under these circumstances would imply that the credit and debit balances should be concentrated in the larger creditor and debtor countries respectively. However, to bring about such a result through automatic compensations has been objectionable to both creditors and debtors. The creditor countries object to a concentration of their assets in a few debtor countries whose weak economic condition and low level of exports made it unlikely that they would be able to pay off their debts within a reasonable period of time. The inconvertibility of the currency of the debtor countries makes it impossible for the creditors to use these assets to pay for imports from third countries. Eventually, the creditor country may have to accept imports of very low priority in order to receive payment at all from the debtors.

The debtor countries in turn object to the concentration of their currency in the hands of a few creditors since many bilateral payment agreements provided for an upper limit to such holdings beyond which any balances would have to be settled in dollars or gold. Furthermore, they feel that their bargaining position would be stronger if their debts were more widely distributed.

Thus, the limitations of the present payment plan reflect the current unbalanced trading situation in Europe and the varying degrees of recovery achieved by the participating countries. Only as these difficulties are eliminated or modified will it be possible to make further progress in the direction of an automatic multilateral clearing.

Lack of Incentives to Achieve Balanced Position. A third limitation of the present plan is the lack of any built-in incentive for the larger intra-European debtors and creditors to achieve a better balance in their transactions with the participating area as a whole. If a European debtor country does better than expected in its relations with other European countries it will only result in the accumulation of unutilized drawing rights. The same lack of incentive to reach a more balanced position exists with respect to creditor countries. A decrease in the forecast bilateral credit balances may expose the creditor to the loss of conditional aid. The development of a larger than expected debit balance in those bilateral relations where an over-all creditor is scheduled to be a debtor with respect to particular countries might equally expose it to the loss of gold and dollars through the operation of payments agreements.

A distinction should be made between the effect of the plan on the estimates of anticipated creditor and debtor positions by the governments of the participating countries and the actual development of trade once ECA aid and drawing rights have been determined.

During the period preceding the establishment of drawing rights, there is an incentive for the debtor countries to overestimate their debtor position in order to increase their total aid (direct dollar aid plus net drawing rights received).

Once drawing rights have been established domestic fiscal and control policies and export and import control policies have a more important influence on the actual flow of trade. The import and export decisions of the individual traders will be influenced by policies such as these rather than by the original estimate of their country's government as to its export or import surplus.

On the governmental level, however, the main incentive to achieve greater balance on a multilateral basis lies at present in the knowledge that net drawing rights are likely to be reduced from year to year—at least insofar as the largest European debtors and creditors are concerned. But it would seem desirable to find ways and means by which such an incentive could be made more operative during a given year than is likely under the present arrangement.

6. Conditions of Success of Any Payments Mechanism.

No intra-European payments plan, however perfect, can by itself achieve ERP objectives. The most essential prerequisites for the successful operation of any payments plan appear to be the following:

(1) Internal monetary and financial stability;
(2) Realistic exchange rates; and
(3) Compliance with certain principles of commercial policy.

a. Domestic Monetary and Financial Stability.

Foreign trade becomes distorted when a country is subject to violent internal inflationary (or deflationary) pressures. The exchange rate can be adjusted to the rising internal prices, but even if the rate were moved freely and promptly, it might be inadequate to offset fully the effects of the inflation on foreign trade. Under these conditions exports are hampered and imports encouraged. Inflationary pressure arises from a demand for goods greater than the supply at current prices. In some cases, these demands are so insistent and so incompressible that the process is a continuing one, and adjustment of the exchange rate will provide little relief to the balance of payments. The remedy must lie in more basic action to remove the inflationary pressures by curtailing the internal demand.

b. Realistic Exchange Rates.

After reasonable domestic stability is achieved, or where it has never been lost, a proper alignment of exchange rates is, of course, a necessary condition of balance in the foreign accounts. As was explained above, any intra-European payments mechanism ought to make possible an increase in intra-European deficits if, in the process, the dollar deficits can be reduced. But for the trade of the participating countries actually to take advantage of such institutional arrangements it is necessary that exchange rates give the proper incentives toward expanding exports to the Western Hemisphere and shifting import sources from the Western Hemisphere to the participating areas.

The intra-European payments plan in turn makes an important contribution to the establishment of an orderly pattern of exchange rates. The requirement that trade be balanced bilaterally will often lead to the temptation to reinforce quantitive regulation of trade by resorting to differential exchange rates in dealing with various countries, in response to specific bilateral price and trade relationships. By doing away with the requirements for bilateral balance, the present payments plan considerably diminishes the temptation to adopt multiple currency practices.

c. Principles of Commercial Policy.

The member countries of the Organization for European Economic Cooperation have agreed to follow certain principles of commercial policy without which the plan could not achieve its objectives of expanding trade and of contributing to ultimate balance of payments equilibrium. The general sense of these principles is that all countries—net creditors and net debtors and countries that are in approximate balance—should collaborate in making possible a gradual reduction in the total imbalance of intra-European trade. This reduction should be achieved by an increase rather than by a decrease in mutual trade.

The effectiveness of the payments plan could be undermined by monopolistic price policies on the part of the creditors or debtors. Thus, an attempt to raise artificially the price of commodities which are bought by the debtors through their drawing rights would be equivalent to cancelling part of these rights.

d. Other Considerations.

In addition to the above prerequisites for the successful functioning of the payments plan, there are a number of possible developments which, while not absolutely essential, could immeasurably strengthen it.

Thus, the establishment of customs or economic unions might encourage the expansion of mutual trade among the participating countries. The pooling of foreign exchange reserves among two or more countries would be the most practical way of reducing the volume of gold and foreign exchange transfers among European countries. Effective coordination of national investment policies would lead to a flow of capital from some participating countries to others and would thus ease the difficult task of bringing all countries into approximate equilibrium with the rest of the ERP area by the end of the program.

7. Special Problems.

Some features of the European aid program have been modified as a result of the payments plan and some problems related to the utilization of drawing rights have become apparent after two months of operation. One modification of the aid program has already been discussed. As a result of linking the payments plan with the European aid program, the dollar allotment has been divided into a basic allotment of grants, loans, or both, on the one hand, and a conditional allotment on the other hand. The latter is conditional upon the establishment of drawing rights by the recipient country in its own currency and their utilization by its debtors in intra-European trade.

Another modification relates to the deposit of the local currency counterpart.

a. Counterpart Funds and the Payments Scheme.

Under Section 115(b) (6) of the Foreign Assistance Act, the recipient country of United States grant aid is required to deposit in a special account the local currency equivalent of the dollar aid received. With regard to the conditional allotment made available to European creditor countries under the Intra-European Payments Agreement, the Administrator has determined that this aid is not to be considered as a grant but as "other terms of payment" under Section 111(c)(1). The terms of payment in the case of conditional aid are the extension of drawing rights to a debtor country, and the debtor country is considered as the ultimate beneficiary of an equivalent amount of ECA aid.

The countries receiving drawing rights (with three exceptions discussed below) have agreed to deposit local currency in the special account in an amount equivalent to the drawing rights they utilize. The creditor countries which in turn receive the conditional dollar allotment do not deposit local currency within the meaning of Section 115(b)(6) but extend drawing rights. In total, therefore, local currency is deposited for each dollar of aid extended in the form of grants or conditional dollar allotment.

Conditional aid advanced by the ECA to cover the drawing rights is generally determined on a gross basis, i.e. equivalent to the total drawing rights established by each country for all other participants. Only in the cases of Belgium, Sweden, and Turkey, (the special problem of Turkey is discussed below) are conditional dollar allotments given on a net basis, i.e. equal to total drawing rights extended less total drawing rights received. While these three countries are receiving relatively small loan amounts, therefore, they are contributing credits in intra-European trade which are paralleled by conditional grants only on a net basis.

Because the conditional dollar allotments to these three countries are limited to the net amount of the drawing rights that they make available, the drawing rights they receive from other countries are considered part of their conditional allotment, which is intended to match the difference between the net and gross drawing rights. Consequently, these three countries are not required to put the local currency equivalent of the drawing rights they exercise into a special account but are expected to make it available to other countries in the form of drawing rights.

b. Trade Problems.

The plan has only been in operation for three months. Certain of the expected difficulties are already becoming visible. For the rest, it is too early to judge. Although some payments appear to be moving in a different direction from that which was anticipated, the estimates appear to have been not unreasonable on the average. In three months $198.4 million drawing rights have been utilized ($67.1 million in October, $56.8 million in November, and $74.5 million in December), which amount to 24.6 percent, or very nearly one-quarter, of the annual total of $810.4 million drawing rights which were established. This general average, however, is not much more than a coincidence. As far as the individual bilateral balances are concerned, some bilateral drawing rights have been used to the limit (according to the agreement not more than 75 percent of each bilateral drawing right may be utilized before March 31, 1949), while a large number (31) of bilateral drawing rights have not been utilized at all.

The reasons for the failure to utilize drawing rights differ between pairs of countries. In some instances, the delay is due to the fact that the existing resources of the debtor countries in creditor countries have to be utilized for financing monthly deficits before drawing rights can be exercised. In other instances, no payments agreements have as yet been concluded which would permit the setting up of the accounts required for the operation of the Payments Plan. Turkey, for instance, has not yet accepted the estimates of drawing rights which it is expected to extend to or receive from other countries and consequently nine drawing rights are so far excluded for monthly compensations. In part, however, it reflects disagreements between the creditor and debtor countries as to the type of goods which should be included in their trade and payments agreement, and, in particular, as to the type of imports to be financed by drawing rights. In other instances, the non-utilization of drawing rights is due to the fact that the actual balance of trade is moving in a direction opposite to the one which was assumed when the drawing rights were set up. The latter is true particularly in the case of the Bizone's trade relations with the United Kingdom and Norway.

Among the more important drawing rights which have so far remained entirely unutilized are those of Austria, Italy, and the Bizone on the United Kingdom, those of France on the Bizone and the French Zone of Germany, and those of Greece and the Bizone on Turkey. Greece, Sweden, Turkey, and the Bizone have not drawn at all on the Belgian francs which are available to them.

The most important drawing right that has been used up to 75 percent is that of the United Kingdom on Belgium ($30 million). Other drawing rights which have been exhausted (up to 75 percent) or are close to being exhausted are those of Denmark on Belgium, on the Bizone, and on the French Zone of Germany, those of Sweden on Italy, and of Norway on The Netherlands.

The general impression gained from the first two months of operation of the Payments Plan is that most countries were more successful in forecasting their aggregate position with respect to the other participants as a group than in mapping out in detail the pattern of their bilateral trade relations. The actual development of bilateral trade, furthermore, requires that early attention be given by the Organization for European Economic Cooperation and the Economic Cooperation Administration to possible steps which should be considered in the case of exhaustion or non-utilization of drawing rights.

N. EAST-WEST TRADE

Eastern Europe traditionally has been a major supplier of certain commodities—notably foodstuffs, coal, and timber—needed by the countries of Western Europe. In developing plans for aid to Western Europe, the Congress, as well as the Harriman Committee and the Select Committee of the House, assumed a substantial amount of trade between Eastern and Western Europe. The Executive Branch of the

Government estimated that during the fifteen-month period from April 1, 1948 to June 30, 1949, the value of imported foodstuffs from Eastern Europe would amount to nearly $500 million, coal imports to $240 million and timber and timber products to $230 million. The value of total shipments for this period from Eastern Europe to Western Europe will probably amount to more than $1.2 billion.

The pre-war figure for exports from Eastern Europe to the ERP countries was approximately $1.3 billion a year. If computed at post-war prices, the figure would be considerably higher. Although East-West trade immediately after the war had slowed to a virtual standstill, it has recovered rapidly. If present East-West trade developments continue, and particularly if the recovery plans for the Bizone are successful, imports from the East may exceed by 1952 the pre-war volume of imports.

According to present estimates, total imports from the East in 1952 will amount to approximately 10 percent of aggregate Western imports, while exports from the West to the East will amount to approximately 65 percent of aggregate Eastern imports. Certain Eastern commodities, including coal, timber and timber products, grains, and potash, are very important to the Western economies. The United States and other sources, in a time of crisis, could probably provide the greater proportion of these raw materials. Failure to maintain East-West trade, however, would impose on the countries of Western Europe the difficult task of finding alternative sources outside Eastern Europe for about $1.5 billion of commodities a year and would substantially increase the cost of ERP to the United States.

The economies of Eastern Europe are now directed according to Soviet-patterned two-year, three-year, and five-year plans. These plans emphasize the industrialization and mechanization of the Eastern economies. Since it is estimated that the Soviet economy will not be able for several years to export the necessary quantities of machinery, steel and other industrial products required by the Eastern European economic programs, it is apparent that the Eastern European governments must continue to depend, at least for the next few years, on their traditional Western sources. Since the rate of industrialization in the Eastern economies is, in the short run, dependent to a great degree on imports from the West, the Eastern countries are not likely to restrict the westward flow of essential raw materials.

One of the primary problems which Western Europe seeks to solve in order to achieve recovery is the reduction of its dollar deficit. Part of the solution of the problem lies in shifting to imports from sources of supply other than the dollar areas. Thus, even though the magnitude of imports into Western Europe from Eastern Europe is small in percentage terms, these imports have substantial importance because they do not require payment in dollars, but can be obtained in exchange for products of the participating countries which are in high demand in Eastern Europe. Moreover, several ERP countries have a traditional pattern of trade with Eastern Europe, which provides an essential market outlet.

ECA dollar authorizations have been made for purchases of Polish coal, Yugoslav non-ferrous metals, and Eastern German potash. Purchases with ECA funds are not authorized in Eastern Europe when there is a possibility of an alternative means of payment such as exchange of goods, extension of credit, or payment in some European currency. The ECA requires full justification of any dollar authorizations for procurement in Eastern Europe and prefers that goods be obtained from Eastern Europe through direct trading.

Section 117(d) of the Economic Cooperation Act of 1948 requires the Administrator to refuse delivery to participating countries of commodities which would go into the production of any commodity for delivery to Eastern Europe if the United States would have refused an export license for such an item to Eastern Europe in the interest of national security. Therefore, the Administrator has supported East-West trade within the limits of national security.

A statistical breakdown further demonstrates the significance of trade between the ERP countries and Eastern Europe in particular commodities and for particular countries.

1. Over-all Trade Pattern.

In 1947 the participating countries imported 4.2 percent of their total imports from Eastern Europe and exported 5.8 percent of their total exports to Eastern Europe. Austria and Denmark obtained more than 10 percent of their total imports from Eastern Europe (16 percent and 12.7 percent). Austria, Denmark, Iceland and Norway exported more than 10 percent of their total exports to Eastern Europe (19.8 percent, 19 percent, 26.4 percent, 13.4 percent).

Because the Eastern European component of the aggregate trade of the ERP countries is small, relatively small variations in the estimates of the rates of growth of the national income of participating countries could result in substantial variations in the Eastern European component of their trade.

One limiting factor, however, may be noted. Since Eastern European countries trade principally with other European countries and the increase in the national income of Eastern Europe in the next few years will be modest in absolute terms (even if rapidly increasing in percentage terms), potential export capacity could not increase to an extent that would significantly affect the estimates of the rates of growth of East-West trade. Less significant increases in export availabilities to the West could occur if some trade were shifted from the Eastern areas to Western Europe.

Tables 1 and 2 show the exports and imports of the participating countries in their trade with Eastern Europe for the years 1938, 1947 and 1948, and show ECA estimates for 1949/50 and the estimates for 1952/53 contained in the individual country submissions to OEEC of the long-term programs.

In general, the 1952/53 estimates submitted to the OEEC by the participating countries correspond with the development of trade which is to be expected. As the rates of growth of national production decline and as trade with the East increases in volume, the rates of increase of trade will tend to decline. This general tendency is found in all but a few of the estimates.

The extraordinary increase of projected exports from the Bizone (1949/50, $50 million; 1952/53, $530.1 million, including exports to the Soviet Zone of Germany) is a reflection of the anticipated return of Germany to the ranks of the major European producers. Although the magnitude of the 1952/53 estimate cannot be strictly evaluated, it appears too high. It is not, however, inconsistent with the key position Germany held in the pre-war trade of Eastern Europe. In 1938, 16.8 percent of Germany's imports originated in Eastern Europe and 17.2 percent of her exports went to Eastern Europe. The surplus of British commodity imports over exports in trade with Eastern Europe is compensated to some extent by estimated net invisible exports to that area of $54 million. In the light of its trade commitments under the bilateral agreements, the Benelux estimate appears be be too low.

TABLE 1.

Commodity Trade of Participating Countries and Eastern Europe[1].

Exports

(million dollars)

	I 1938	II 1947	III 1948[2]	IV ECA Estimates for 1949/50	V 1952/53 Estimates in Country Submissions
Austria	78.1	16.7	31.3	60	103.1
Benelux	89.8	108.8	153.0	330	311.0
Bizone	....	3.6	18.7	50	530.1
Denmark	13.4	91.7	79.6	100	102.0
France	50.2	48.3	43.3	110	....
Greece	12.5	5.3	....	3	11.1
Iceland	.1	11.8	9.3	7	....
Ireland	.1	0.16	.9	....	....
Italy	50.8	48.8	53.7	100	182.9
Norway	12.0	48.9	52.0	75	63.9
Portugal	1.4	....	1.3	....	....
Sweden	53.0	85.6	88.1	155	....
Switzerland	33.7	65.6	66.7	140	....
British-US Zone of Trieste	....	....	....	....	.79
Turkey	14.6	19.7	20.6	20	....
United Kingdom	135.8	177.7	169.6	340	365.0
	545.5*	732.6	788.1	1490	

[1] Eastern Europe includes: Albania, Bulgaria, Czechoslovakia, Finland, Hungary, Poland, Rumania, the U.S.S.R. and Yugoslavia. Column V includes Soviet Zone of Germany.

[2] Based on trade for January-June 1948. Uncorrected for seasonal variations.

* Total exports, including Germany, were 908.7.

No specific estimates of anticipated trade with Eastern Europe were submitted by the participating countries with respect to 1949/50. They were incorporated in the estimates of trade with other non-participating countries. The ECA estimates of trade between East and West for 1949/50 were made on the basis of the latest available trade statistics, the commitments to trade under current bilateral agreements between the participating countries and the Eastern countries, and the aggregate estimates submitted to the OEEC in the country submissions for 1949/50. Since the bilateral estimates usually exceed the actual trade moving between the trading partners and trade patterns change from year to year, the accuracy of the estimates can scarcely be ascertained

TABLE 2.

Commodity Trade of Participating Countries and Eastern Europe

Imports

(million dollars)

	I 1938	II 1947	III 1948	IV ECA Estimates for 1949/50	V 1952/53 Estimates in Country Submissions
Austria	109.7	29.3	70.6	80	110.9
Benelux	130.8	155.9	203.2	380	320.4
Bizone	....	19.7	15.4	60	558.4
Denmark	22.5	81.7	103.9	110	116.9
France	63.3	55.3	78.1	120	....
Greece	30.0	7.1	....	3	11.1
Iceland	.2	6.5	5.5	7	....
Ireland	7.7	11.6	6.0	....	....
Italy	75.9	72.8	61.3	120	182.9
Norway	20.2	43.8	84.1	80	80.1
Portugal	2.3	....	1.5	....	....
Sweden	46.7	125.0	140.1	160	....
Switzerland	42.6	101.3	82.9	160	....
British-US Zone of Trieste	....	....	5.0	....	2.25
Turkey	15.2	15.2	17.6	20	....
United Kingdom	364.2	194.5	288.3	380	510.3
	931.3*	919.7	1163.5	1680	

Sources:
I, II and III—Derived from Commerce Department table, *Distribution of Foreign Trade of ERP Countries.*
IV—Based on estimates derived from country submissions for 1949/50, latest available trade statistics, and commitments to trade under current bilateral agreements between the participating countries and Eastern Europe.
V—Estimates in participating country submissions for 1952/53.
* Total imports, including Germany, were 1299.0.

within narrow limits. Although it is not possible to determine the precise volume of commodity imports and exports, it is assumed that the tendency for Eastern European countries to have an excess of commodity exports in trade with the participating countries will persist.

The 1952/53 estimates of the participating countries include an excess of imports from Eastern Europe, except in the case of Italy, whose trade is estimated to be balanced. In the first half of 1948, every Eastern European country except Finland had an excess of commodity exports over imports in trade with the participating countries. The aggregate excess of exports amounted to $177.3 million. All participating countries except Ireland, Italy and Switzerland increased the share of Eastern imports in their total imports.

The percentage share of the Eastern countries in the total exports of the participating countries generally declined. In only two cases (Italy, Iceland) did this percentage decline reflect a decline in absolute export values.

2. Commodities of Special Importance.

Of the less than 10 percent of aggregate pre-war imports of the participating countries from Eastern Europe, four commodities made up over 50 percent of the trade. These commodities—coal, timber, grain and potash—are considered of sufficient importance to the success of ERP to be discussed separately.

a. Coal.

Western Europe was a net exporter of coal before the war. However, without a decided increase in production in the United Kingdom and the Bizone, there is little chance of reaching the pre-war figure by 1952. The level of coal production in the United Kingdom is now 15 million tons less than pre-war and the rate of export is 30 million tons below pre-war, owing to the fact that Britain's internal requirements have increased by some 15 million tons.

During 1948/49 hard coal production in the Bizone was at the rate of 76 percent of the 1938 production and was 30 million tons short of the pre-war level despite increased employment. Production is improving, however, and increased from 70 percent of pre-war in June to 80 percent in December. The end of dependence on American coal by 1952/53 depends on increasing production in participating countries and on the availability of export supplies from Poland. Though most participating countries probably cannot use much more coal in the next few years than they are using at the present time, the Bizone will require at least an additional 22 millions tons. Estimated requirements for OEEC countries by 1952 are 485 million tons while the highest estimated production is 458 million tons. The gap for import would be 27 million tons, or about 6 million tons lower than the present gap of 33 million tons. It is expected that by 1952 Poland might produce 83 million tons of coal of which 40 might be exported. Of the exports about 25 million tons might be available to OEEC countries, as compared with 13 million in 1948 and 16 million in 1949/50. The Polish coal fields always supplied part of the import requirements of the present OEEC countries owing to the fact that Poland enjoys fairly favorable transportation routes to the Scandinavian countries and to Austria. For this reason, the OEEC countries will continue importing Polish coal in increasing quantities as it becomes available.

TABLE 3.

Polish Exports of Solid Fuels to OEEC Countries.
1946 through August 1948.
(In metric tons)

Country	1946	1947	Jan.-Aug. 1948
Austria	160,011	858,000	859,998
Belgium	....	433,000	256,395
Denmark	732,574	1,041,000	1,405,383
France	595,741	536,000	1,278,405
Iceland	....	44,000	4,000
Italy	60,697	425,000	400,522
Netherlands	....	294,000	185,583
Norway	378,294	637,000	677,110
Portugal	....	3,000	....
Sweden	2,179,551	2,508,000	2,366,429
Switzerland	255,472	680,000	198,429
U.K.	....	116,000	51,626
	4,362,340	7,575,000	7,683,880

In addition to Poland, a small amount of coal and coke is obtained from Czechoslovakia by the countries indicated. Production development in Czechoslovakia is not expected to permit important export increases.

TABLE 4.

Czech Exports of Coal to OEEC Countries.
January to June 1948.

Country	In thousands of metric tons
Austria	381.8
France	11.2
Germany (East and West)	497.6
Italy	79.4
Switzerland	81.4
Trieste	1.0
	1,052.4

b. Timber.

Together with coal and steel, timber is one of the most essential commodities needed for the reconstruction and expansion of the productive capacity of Western Europe. Timber is needed for coal mines, pulp and cellulose, railroads, and the building industry. Inadequate supplies of timber jeopardize the construction of industrial buildings and workers' dwellings and adversely affect the production and distribution of coal.

Timber is currently in very short supply. The seriousness of the situation is evident from the figures given in the following table, prepared by the Timber Committee of the Economic Commission for Europe, which sets forth data concerning exports and imports of sawn softwood in 1937 and 1947 and gives the estimates of the Committee for 1948 and 1949. It is to be noted that the USSR, which in pre-war years was a major exporter of sawn softwoods, now supplies little to Western Europe and that the exports of the other countries are substantially below pre-war levels. Whereas in pre-war years the Western European countries customarily imported 4½ million standards of sawn softwoods annually, the total which they can import now, at a time when needs for reconstruction purposes are exceptionally large, is in the neighborhood of only 2½ million standards. Although the effective demand (that is, what the countries are able and willing to purchase of the supplies available at the terms offered) for sawn softwood in Western Europe in 1948 was equal to 3 million standards, the export prospects from Eastern Europe were in the neighborhood of 2½ million standards. When allowance is made for the fact that European imports from the Western Hemisphere were reduced below the level of actual timber needs and below Western Hemisphere availabilities because of dollar shortages, the gap between effective Western European import demand and the export availabilities for 1948 was about 25 percent of demand.

Effective demand for 1949 is estimated at 3.2 million standards and "normal" export availabilities at 2.2 million standards, leaving a gap of 1 million standards.

Although country-by-country estimates are not yet available for 1950, the situation may be even more critical than in 1949. The Bizone, whose exports will decline in 1949, plans to decrease exports even more sharply in 1950. The timber needs of the principal importing countries are expected to continue to increase as a result of increasing economic activity and reconstruction efforts under ERP.

TABLE 5.

Present and Prospective Sawn Softwood Situation in Europe [1]

(thousand of standards)

Principal Exporting Countries	Exported		Export Prospects			
			1948		1949	
	1937	1942	Normal	Maximum	Normal	Maximum
Austria	317	31	64	68	64	90
Czechoslovakia	176	128	65	80	25	45
Finland	1,045	474	515	515	350	420
Poland	334	—	48	60	50	60
Yugoslavia	197	58	65	80	60	160
Sweden	820	409	530	530	375	450
USSR	1,362	—	100	150	100	250
U.S.A. & Canada [2]	618	873	600	700	800	800
Germany	(—731)	616	356	365	225	230
Total for all timber exporting countries	4,542	2,641	2,508	2,744	2,185	2,731

Principal Importing Countries	Imported		Effective Demand		Essential Needs
	1937	1947	1948	1949	1949
United Kingdom	2,366	1,419	1,140	1,200	1,700
Netherlands	374	214	260	300	325
France	745 [a]	154	145	200	275
Belgium	275 [a]	115	210	210	250
Denmark	171	112	150	200	250
Italy	312	74	257	145	425
Turkey	5	—	90	90	90
Total for all European countries	4,575	2,294	3,044	3,187	4,328

[1] Source: Timber Committee of ECE.
[2] ECA Washington, estimates that maximum exports to western Europe in 1948 could have reached 1.2 million standards and that the same level can probably be attained in 1949.
[a] 1918 to 1932 average.

A World Bank loan, now under consideration, to provide additional timber equipment for Finland, Yugoslavia, Austria, Czechoslovakia, and possibly Poland, would increase export availabilities from these countries in 1949/50 by some 300,000 standards or about $60 million of additional timber per year. This amount, which is over 50 percent of the expected exports of these countries in the absence of the equipment covered by the loan in question, would serve to increase world export availabilities by over 10 percent and to eliminate about 30 percent of the estimated 1949 gap between availabilities and effective demand. The United States Government has given support to the loan, and it is expected that loan contracts will be drawn with the exporting countries in the near future. The OEEC countries benefiting from this added timber availability will be the United Kingdom, Italy, France, Denmark, The Netherlands, and Belgium. The United Kingdom will be the principal importer, with Italy next.

c. Grain.

The position of Eastern Europe as a source of grain for Western Europe changed markedly after World War II. Before the war (1934-38) Eastern Europe supplied about 6,000,000 tons of grain annually to the OEEC countries, or 25 percent of their net imports of 24,000,000 tons. Since the war shipments to the West have varied from less than 100,000 tons in 1946/47 to somewhat under 900,000 tons estimated for 1947/48. Table 6 shows net imports of the OEEC area and imports from Eastern Europe for pre-war and post-war years and estimated imports for the years 1948 through 1952.

The grain imports scheduled from Eastern Europe under the bilateral agreements (chiefly for the years 1947/48 and calendar 1948) amounted to 1,631,000 tons. In addition, Italy and France were to receive an unspecified quantity of grain from the East. Table 7 shows imports from Eastern Europe in 1937 and projected 1949/50 imports. In the post-war period the USSR has supplanted the Soviet orbit countries as the principal supplier of grain from Eastern Europe.

Even if grain imports from the East should rise by 1951/52 to the projected 2.9 million-ton level, they would constitute less than half of the pre-war supplies from that area. As a result far greater dependence than before the war is being, and will be, placed on the United States as a source of supply, with a corresponding pressure on dollar resources. Before the war the United States provided about 8 percent of OEEC country imports of bread grains, while it provided about 52 percent in 1947/48 and is expected to provide 55 percent in 1948/49.

TABLE 6.

OEEC Countries Imports of Grain [a] from Eastern Europe: Post-war 1946/47 and 1948 through 1952.

Year	Net Imports All Sources	Imports from Eastern Europe	Imports from Eastern Europe (Percentage of Net Imports)
	(Million Metric Tons)		
(b) (annual average)			
1934-1938	23.7	6.0	25.3
1946/1947	17.1	0.09	.5
1947/1948	19.4	0.9	4.6
1948/1949	24 (c)	2.0 [c]	8.5
1949/1950	23.7 (c)	2.6 [c]	11.0
1951/1952	22.4 (d)	2.9 [d]	12.9

(a) All grains, excluding rice.
(b) Includes Western Germany.
(c) Latest ECA estimates.
(d) Early unrevised estimates.

The degree of dependence of the OEEC area on Eastern European grain before the war was relatively small, net imports amounting to 7 percent of total consumption. Allowing for 2 million tons of imports from the East in 1948/49 and 2.9 million tons in 1951/52, the proportion that these imports constitute of projected consumption would be 2 percent and 3 percent respectively. If supplies in 1951/52 were curtailed to the extent of the total projected import from the East, per capita supply would be reduced from 355 kg. to 322 kg., or from 93 percent to 91 percent of the pre-war average. Information available in bilateral agreements, however, indicates that Eastern European sources are of considerable importance in relation to total imports for those countries for which such information is available, and in absolute quantity are especially important for the United Kingdom. Table 7 shows Western Germany as especially dependent on Eastern Europe (Eastern Germany) for grain before the war, with Austria, Belgium-Luxemburg, and the United Kingdom each receiving more than 400,000 tons from the East.

TABLE 7.

OEEC Countries Grain Imports from Eastern Europe: 1937 and Estimated 1949/50.

(Thousands of Metric Tons)

Country	1937	1949/50 (a)
Austria	806.3	52.0
Luxemburg / Belgium	461.1	240.0
Denmark	360.6	115.0
France	193.8	75.0
Greece	238.3	0.0
Iceland	—	0.0
Ireland	—	0.0
Italy	357.0	205.0
Netherlands	233.8	340.0
Norway	17.7	195.0
Portugal	4.0	—
Sweden	24.3	55.0
Switzerland	247.6	—
United Kingdom	413.1	1,072.0
Bizone	—	250.0
French Zone	3,199.0	0.0
Saar	—	—
COUNTRY TOTAL:	6,556.9	2,599.0

(a) Estimate for ONPC, which coincides approximately here with Eastern Europe.

d. Potash.

The net imports of OEEC countries of potash prior to the war constituted about 177 thousand tons, or 14 percent of total consumption for the area. Of the quantity imported, 70 percent came from the Eastern Zone of Germany and the balance from Spain and minor non-participant producers. Potash consumption in Western Europe declined substantially after the war, but production declined more rapidly, increasing the import-consumption ratio to 25 percent with about one-half of imports originating in the Soviet sphere, particularly the Eastern Zone of Germany.

Potash consumption in Western Europe in 1948/49 will probably rise to a level of 50 percent above pre-war and to 80 percent above pre-war in 1951/52. Net imports were estimated at 600 thousand tons for the first three years of the ERP (about 30 percent of total requirements), falling to 509 thousand tons in 1951/52 (or about 22 percent of total requirements). Since imports from Spain probably will not exceed 100 thousand tons annually, and from Palestine, 40-50 thousand tons, about 450 thousand tons in each of the first three years and 350 thousand tons in 1951/52 would have to come from the Soviet Zone of Germany, the only other major exporting area.

In the event of a short-fall from Eastern Europe, it would be difficult to fill Western Europe's potash requirement. Western German output could be increased if added investment were made in new equipment and repairs, as well as coal, electric power and transportation.

TABLE 8.

OEEC Area Potash Consumption and Imports from Eastern Europe 1948/49 (Estimates)

Country	Consumption	Import Sources	
		ONPC	Participants
		(In thousands of metric tons)	
Austria	32	32	—
Belgium-Luxemburg	117.5	50	67.5
Denmark	61.7	56	5.7
France	400	(b)	(b)
Greece	5	—	5
Iceland	0.7	9.7 (c)	—
Ireland	12	6	6
Italy	25	8	15
Netherlands	150	70	80
Norway	42	28	14
Portugal	5	5	—
Sweden	40	30	10
Switzerland	—	—	—
Turkey	0.88	0.88	—
U.K.	200	125	75
Bizone	470	—	—
French Zone	56	—	20 (c)
Total	1,617.8	411.6 (d)	415

(a) Other non-participating countries, including Spain, Palestine and Eastern Europe.
(b) Net exporter.
(c) From Canada and Newfoundland.
(d) Not over 100 thousand tons from Spain and 30-40 thousand tons from Palestine included in ONPC.
(e) No source breakdown.

TABLE 9.

Expected Exports from Eastern Europe under Agreements as Percent of Total Net Imports by Country, 1948/1949

Country	Coal	Grain	Timber	Woodpulp	Potash
France	7.4	n.a.	4.4	12.7	[1]
Belgium	8.0	25.9	41.6	18.5	116.1
Netherlands	5.4	n.a.	11.0	8.3	19.4
Norway	40.4	28.6	[1]	[2]	32.2
Sweden	57.9	31.1	[1]	[1]	n.a.
Denmark	27.6	20.4	26.3	30.8	117.7
Switzerland	20.8	19.4	27.7	33.3	n.a.
Austria	23.0	0.2	[1]	[1]	[2]
Italy	12.6	n.a.	10.7	[2]	n.a.
Greece	[2]	[2]	19.2	n.a.	[2]
Iceland	77.1	[2]	2.6	[2]	[2]
United Kingdom	[1]	11.9	15.0	22.5	[2]

[1] Not exported.
[2] Not included
n. a. Not available.

O. STRATEGIC MATERIALS.

In accordance with the provisions of the Economic Cooperation Act concerning materials in which United States resources are deficient or potentially deficient, the objectives of the ECA in this field have been: to promote an increase in the production of materials through exploration and development; to further the transfer of materials to the United States by purchase or otherwise; and to obtain for the United States schedules of future availabilities and increased production as well as equal rights of access to the development of such materials.

1. Factors Affecting Supplies from Participating Countries.

In spite of its utmost efforts to accomplish these objectives, the ECA is not satisfied with the progress made by the end of 1948. The principal reasons for unsatisfactory results, it is believed, have been: (a) the lack of adequate and long-term purchasing power in any United States Government agency; (b) limited number of materials in which ERP areas as a whole have net surpluses, actual or potential; (c) lack of inventories on hand in participating countries available for purchase; (d) time required to work out development projects; and (e) reluctance of producers, both American and foreign, to contribute to a large supply of materials that may overhang their future markets.

Despite these difficulties, four purchase agreements were executed prior to the end of 1948. All were purchases with local currency counterpart funds, in a total amount equivalent to $21,600,000. There were in addition a number of transactions pending, involving exploration and development as well as purchases, which were in varying stages of progress at the end of 1948.

The Bureau of Federal Supply (BFS) of the Treasury Department is designated by the Strategic and Critical Materials Stock-Piling Act of July 23, 1946, as the government agency to purchase strategic materials, and a limited amount of dollar funds have been appropriated for use by it for that purpose. The ECA has worked closely with and assisted the BFS in locating materials and arranging for their purchase. In some transactions, payment will be made partly with BFS dollars and partly with ECA counterpart funds. While ECA dollars are not available for straight purchase transactions, the use of ECA dollars is contemplated for exploration and development of production, with repayment in materials to be delivered to the BFS out of future production.

ECA activities in the strategic materials field are legally confined to the participating countries and their dependencies and China. This excludes such important sources as the British Dominions, Burma, and independent countries in Latin America and the Middle East. Southern Rhodesia has not yet acceded to the United Kingdom bilateral agreement.

Moreover, strategic materials possibilities in participating countries and their dependencies have distinct limits. These areas have actual or potential net surpluses of tropical and semi-tropical vegetable products, limited for practical purposes only by expectancy of market requirements. In the mineral field, however, where because of depletion the strategic interests of the United States are most vital, these areas as a group have net surpluses, based on known facts, only of tin, cobalt, diamonds, flake graphite, tungsten, mercury, antimony, bauxite, phlogopite, and possibly columbite, tantalite and corundum. In non-stockpile items there are also fluorspar and potash. As a group the participating countries and their dependencies do not have net surpluses of petroleum, copper, lead, iron, zinc, nickel, vanadium, strategic muscovite mica, asbestos, beryl, bismuth, cadmium, zircon, barite, molybdenum, platinum, kyanite, chromite, and manganese. In the last three items there is a normal flow to the United States from dependent areas but this is due to geography and does not represent a net surplus for the group. In consonance with the spirit of the Economic Cooperation Act, it has been necessary to harmonize United States interests in strategic materials with the basic aims of the Act. It would not be sound, for example, to take for stockpiling purposes materials which are urgently needed by the participating countries for recovery, thereby forcing them to dip into outside areas for their needs. In addition to increasing net transportation costs, such a course would only redistribute the trade patterns in scarce materials without necessarily adding to the total United States share of world supplies.

With respect to use of the five percent portion of the counterpart funds for exploration, development, and purchase, there is an important limiting factor. Any substantial transfer of materials by a participating country to the United States without payment in dollars would necessitate a recalculation of the country's requirements and additional aid to compensate for its decreased dollar earnings. Moreover, five percent counterpart funds are available in sizeable amounts in only three of the significant sources of materials within the ERP group of countries, namely, the overseas dependencies of the United Kingdom, France and The Netherlands. The amount of counterpart funds in Belgium is very limited and none are available in Portugal and Turkey because these countries have received no grant assistance.

In order to stimulate interest on the part of American companies in exploration and development operations, the ECA has expressed a willingness to make loans of five percent counterpart funds, to be repaid in production if gained.

In the opinion of the ECA it is indispensable for an effective program to increase the supply of strategic materials to the United States that there be adequate purchasing power vested in an agency authorized to place, anywhere in the world, procurement contracts continuing over a period of time sufficient at least to permit producers to amortize their investments at reasonable rates.

2. ECA Operations.

The Act calls for the negotiation of "future schedules of minimum availabilities" from ERP countries, of materials in which the United States is deficient or potentially deficient, "either in percentages of production or in absolute quantities." The ECA, working with other government agencies, has been unable thus far to determine what such schedules should be in the case of various materials produced within a participating country or its dependent territories. In order to proceed with negotiations for the purchase of deliveries of material out of increased production, it is necessary to establish quantitative goals. At the ECA's request, interdepartmental investigations are being conducted, under the auspices of the National Security Resources Board, seeking to determine future United States stockpile requirements and the quantities that should be requested from participating countries. When this information is received, negotiations for the schedules of minimum availabilities can be started.

In order to learn the problems at first hand, to achieve some early results, and to review policies and objectives with the ECA missions, a temporary mission to Europe was organized by the ECA in mid-August 1948 consisting of the Director of the Strategic Materials Division, the Director of the Bureau of Federal Supply, a mining consultant, a transportation consultant and a member of the legal staff. This mission visited the Office of the Special Representative in Paris and the ECA missions in London, Paris and The Hague. In each case, an investigation was made into various procurement and development possibilities in each country, in consultation with both government officials and private producers. Purchases of rubber and sisal were arranged in the United Kingdom, and negotiations initiated toward expansion of Gold Coast manganese production. In The Netherlands groundwork was laid for subsequent purchases of bauxite and quinidine. In France negotiation was begun toward the production and procurement of a substantial quantity of Madagascar flake graphite. Also, initial steps were taken in procuring an inventory of lead concentrate for the United States stockpile and expanding North African manganese production. With the cooperation of the United Kingdom Government and other governments concerned, arrangements were made for the purchase of chrysotile and amosite in non-ERP territory. Opportunities for American capital participation were disclosed in French North African lead mining, French Cameroon tin-mining, French Congo lead-zinc mining, New Caledonian nickel development, nickel development in Celebes, and in aluminum production in Sumatra.

In certain instances attempts to develop strategic materials are only practical if accompanied by necessary preliminary or corollary steps, such as mapping and geological study in new areas. The ECA, together with the British Government, is considering projects to furnish a number of American geologists, geodetic surveyors, and disease control specialists to supplement British colonial surveys, and a project to provide a transportation and economic survey in British East Africa. It is likely that similar assistance may be extended to other participating governments.

Because direct development of most strategic materials is uneconomic without transportation being available, certain transport bottlenecks to strategic material developments are being studied with a view to financing the costs of improvement of the transport facilities. For example, the port of Beira, Mozambique, and the Beira railway are bottlenecks to the strategic material output of Northern and Southern

Rhodesia. Transport systems in the Belgian Congo and across French West Africa are also under study. Growing attention is being paid to Africa because of the potentiality of this continent as a buttress to the European economy.

3. Review of Possible Sources of Strategic Materials.

Aluminum. There is no surplus production of aluminum ingots in Norway at the present time. All Norwegian present production is allocated, and plans are under way to increase this production.

Antimony. Standing offers of as much as 2,000 tons of Chinese antimony have had to be refused for lack of available Bureau of Federal Supply (BFS) dollars. If the Communist advance in China does not overrun the antimony area, expansion of production can be accomplished, but nothing can be done without long-term purchase funds to justify expansion. Meanwhile, the ECA is trying to interest private purchasers in these offers.

Asbestos. There are no important deposits of asbestos within the areas controlled by the participating countries. However, with the assistance of the United Kingdom Government, arrangements were made by the ECA and the BFS for future delivery of Southern Rhodesian chrysolite and South African amosite to the BFS.

Bauxite. This material is produced in the Netherlands East Indies, Gold Coast, Italy, France, British Guiana, and Surinam. There are undeveloped deposits in Malaya, Jamaica, Nyasaland and on islands off the coast of French Guinea. Nevertheless, the European material is not suitable for American plants as presently constituted. The ECA is arranging for deliveries to the BFS, to be financed with 5 percent counterpart funds from the NEI and Surinam. Projects for development of the Jamaica and French Guinea deposits are under consideration. A proposal to dredge a channel for ocean-going ships to reach some of the British Guiana deposits is being studied. The production from British Guiana and Surinam goes principally to the United States and Canada; however, a large portion of the Canadian metal flows to the United States.

Cadmium. This metal is produced entirely as a by-product, chiefly from zinc smelting. (See *Zinc*)

Chromite. Turkey, New Caledonia, Greece, and Sierra Leone are producers of this mineral. The ECA is seeking to expand Turkish production. An expansion program is in view for Sierra Leone production. This deposit is stated to be of limited capacity. Southern Rhodesia is an important producer, but has not chosen to commit itself to the European Recovery Program.

Cobalt. Cobalt is produced in the Belgian Congo, Northern Rhodesia, Morocco, and Norway, the last being a minor source. The Congo producer, accounting for 60 percent of world supply, has contracted for deliveries to the BFS beginning in 1949 and is willing to expand capacity substantially whenever assurance of a market is provided. An expansion of Northern Rhodesian production is contemplated. The Moroccan producer could double his output, but the product cannot be exported at current world prices. An undeveloped deposit, associated with copper but remote from transportation, is being explored in Uganda.

Coconut Oil. Negotiations are proceeding to obtain coconut oil from the NEI, probably with 5 percent counterpart funds.

Columbite. The only important source in ERP areas is Nigeria. Although this has been the world's most important source in recent years, production has come principally from retreatment of tin tailings, and this supply is near exhaustion. Future supplies will be reduced to a rate keyed to tin production, plus small contributions from virgin ground. Possible sources in the Belgian Congo, Uganda, Mozambique, and French Cameroons are being investigated by the ECA.

Copper. Although Northern Rhodesia and the Belgian Congo are among the world's more important copper areas, their total supply is required for European needs. There is a relatively small deposit in Turkey, and discovery is reported in Uganda with cobalt associated with the copper. The last is said to be large but of low grade and remote from transportation facilities. Expansion programs are contemplated in Northern Rhodesia and the Congo. The ECA is trying to advance the Rhodesian project into the 1949 program of the United Kingdom, and with Commerce Department cooperation has expedited delivery of necessary equipment to the Congo producer.

Corundum. Negotiations are being conducted by ECA and BFS to purchase corundum from the French Cameroons and to investigate the possibility of expanding production. Marginal deposits are known in Mozambique and Nyasaland which will be investigated.

Cryolite. This is Denmark's only strategic material, and the only commercial source in the world is a single deposit in Greenland. However, because it is also made synthetically, its strategic importance is not great. The BFS is willing to accept deliveries at New York. The ECA is investigating the possibility of purchase and shipment with 5 percent counterpart funds.

Diamonds. The largest producer of bort is in the Belgian Congo. A quantity of industrial stones and bort was purchased in London with counterpart funds. Bort production in Angola is being investigated. A quantity of industrial stones from French Equatorial Africa was offered, but because of uncertainty as to availability of dollars, investigation is being made of the acceptability of counterpart funds. Diamondiferous gravels occur from Sierra Leone to the Congo and the ECA will seek to foster development if adequate buying interest develops.

Fluorspar. The Bizone was a large producer before the war, and productive possibilities are now being investigated by the ECA.

Germanium. An offering of germanium has been made from Belgium Congo sources, but pending further research by the Munitions Board, this is not a stockpile item.

Graphite. An agreement has been entered into with the government of France and the negotiation of specific contracts is near completion to fulfill stockpile goals of Madagascar graphite out of expanded production, at the rate of approximately one-third of present world production. Investigation is being made of the acceptability of Austrian graphite and of the commercial possibilities of deposits in Tanganyika and Kenya.

Iron. Some high-grade iron ore is now being exported from Sweden and Algeria to the United States. The North African high-grade deposit is small. Lateritic iron ore carrying approximately 50 percent iron is available in Celebes and New Caledonia, but no market has been found in the United States. Norway has a large low-grade iron deposit from which an exportable surplus of high-grade concentrates can be produced.

Kyanite. ECA dollar funds are being made available through the United Kingdom Government to an American operator in Kenya for the purpose of expanding production, sufficient to fulfill United States stockpile requirements in three years. Delivery will be made under the contract to the BFS.

Lead. Lead is mined in Morocco, Northern Rhodesia, Italy, Greece, Turkey, France, the French Congo, the Bizone, Austria, Sweden, and Norway. Production, however, is not equivalent to European requirements. A recent discovery in Tanganyika is being developed, and a discovery has been reported in Greenland but the Greenland deposit is ice-bound until next summer. Attempts are now being made to expand production in Italy, Greece, Turkey, Bizone, France, Morocco, and Austria. An expansion is programmed for Northern Rhodesia. A counterpart loan is being negotiated by the ECA to explore a promising deposit in Algeria.

Manganese. The most important source of manganese in ERP territory is in the Gold Coast. Other production exists in Morocco and the Belgian Congo. Undeveloped deposits occur in Turkey. Gold Coast production, of which the United States normally receives about 40 percent, is being maintained to the full capacity of the existent plant under current labor conditions. The Gold Coast producer has offered 200,000 tons of intermediate grade material which although not acceptable for stockpile purposes can be utilized by United States industry. The ECA together with other interested government agencies is studying the feasibility and desirability of financing construction of additional plant facilities in the Gold Coast. Efforts are being made to expand Morocco production and to investigate the Turkish deposits. The ECA is also investigating the Belgian Congo deposit.

Mercury. Italy is one of the world's two largest producers. There is substantial stock on hand in Italy and a considerable expansion of production is possible. However, the United States stockpile position is comfortable enough to make the BFS unwilling to pay even ocean freight. The ECA is currently negotiating to purchase and ship a large quantity with counterpart funds if a satisfactory price can be reached.

Mica. A considerable quantity of strategic muscovite mica, principally from India, is available from the British Board of Trade, and a portion may be purchased with sterling counterpart funds. Phlogopite is produced in Madagascar and the ECA is pursuing the possibility of purchase, and production expansion if appropriate.

Nickel. Large nickel deposits occur in New Caledonia, and a large undeveloped deposit is known in Celebes. The ECA has relieved the bottleneck in New Caledonian production from shortages of Australian coal by arranging for shipment of coal from the United States. The proposals of the principal producer for finances to expand production are being given favorable consideration, and in cooperation with the producer, the ECA is seeking to interest private American capital participation. The ECA is doing likewise with reference to the Celebes deposit, where the concession owner is also willing to take an American partner. The New Caledonia producer is also willing to ship sintered ore to the United States.

Palm Oil. Large areas within ERP territory are susceptible to palm oil production, given adequate assurance of markets. The two areas now producing a surplus are the Belgian Congo and the Netherlands East Indies. This material is under international allocation. A purchase is being made of a large quantity of NEI palm oil allocated to the United States with counterpart funds. Arrangements are also being made for purchase of a substantial tonnage each month in 1949 with counterpart funds.

Pepper. Negotiations are now in progress in The Hague to secure a quantity of pepper for the BFS. This is difficult without disturbing world prices because pepper is in such short supply.

Petroleum. ERP areas are petroleum-deficient. The only important producing area is Indonesia. A petroleum geological consultant has prepared a report making recommendations as to what ERP areas merit attention. The use of ECA loan funds is also being considered for the expansion of British-controlled production in non-ERP territory.

Platinum. No important production is known in ERP areas. An offer to sell a part of its inventory was made by the British Board of Trade, but the BFS was unwilling to sanction payment of then current market prices. An undeveloped platinum deposit is known in Northern Rhodesia.

Pyrethrum. Kenya is a large producer, but the BFS is not at present interested in pyrethrum purchases.

Quartz Crystal. Undeveloped deposits are reported in Angola (Portuguese) and Mozambique (also Portuguese), but the BFS has no active interest in acquisition with its dollars at present.

Quinidine. A substantial purchase from the Dutch has been arranged, using 5 percent counterpart funds. The Dutch have also indicated a willingness to sell a large quantity of quinine, convertible into quinidine, or to ship cinchona bark.

Rapeseed. This is produced in ERP areas and is available, but the item is being stricken from the stockpile list.

Rubber. Large quantities of rubber are available. A purchase of 26,000 tons was made with 5 percent counterpart funds from the British Board of Trade. The Dutch have indicated a willingness to ship a considerable tonnage every month to the BFS during 1949 and to accept payment in counterpart funds. Natural rubber production is greatly expansible, but uncertainty over what level of synthetic production will be maintained by the United States as a strategic precaution is deterring investment, both in plantation rehabilitation and new development.

Sisal. Twelve thousand tons have been purchased from the British Board of Trade with counterpart funds, and more is available for 1949 delivery. Sisal production, like other tropical vegetable materials, can be built up in various dependencies to any level for which a market is indicated.

Talc. A strategic grade of block talc comes from Sardinia, but this is being made available to the BFS in satisfactory quantities through commercial channels. Samples of Austrian and Bizone talc are being shipped for testing as to acceptability.

Tantalite. This material can be obtained from the Belgian Congo whenever the BFS desires to make a long-term purchase agreement.

Tin. The bulk of the world's tin comes from Malaya, the Netherlands East Indies, Belgian Congo, and Nigeria. A high level production is being obtained in the Belgian Congo and Nigeria. Investment in new production in Malaya is not at a rate sufficient to satisfy United States objectives. The area has been affected by banditry and the producers are fearful that increased production might well result in overproduction when stockpile requirements have been met. Tin has been the subject of consideration by the International Tin Study Group, which has been discussing an international agreement. The agreement will probably call for producers to expand production to the levels sought and for consumers to guarantee a sufficient market to safeguard necessary investments. The ECA intends to request the United Kingdom and The Netherlands to present programs for expanded production. The ECA and the RFC have developed a special purchasing arrangement to expand the production of Chinese tin concentrates and have them delivered to the Government-owned smelter at Texas City.

Tungsten. China, Korea, Malaya, and Portugal are producing areas. Inventories are available from China, and Chinese and Korean production can be expanded, whenever adequate dollar funds are available as there are no 5 percent counterpart funds in these countries.

Vanadium. Vanadium is produced in Northern Rhodesia, but other ERP areas are deficient. An expansion program is contemplated.

Zinc. Zinc ore is produced in Northern Rhodesia, Morocco, the Bizone, Austria, Italy, France, Portugal, the Belgian Congo, Sweden, and Norway. However, none of this is produced in surplus over European needs. Zinc smelting is done in Belgium, United Kingdom, France, Bizone, Italy, and Norway, the ore coming from Australia, Newfoundland, and Latin America, chiefly Mexico. Some surplus of metal occasionally comes to the United States from Belgium and Norway. The ECA is studying possibilities of production expansion of zinc ore in Austria, Bizone, and Italy. Expansion programs are projected by the producer in Northern Rhodesia and the Belgian Congo.

P. GERMAN REPARATIONS.

The Administrator for Economic Cooperation has certain responsibilities in connection with German reparations that are set forth in Section 115(f) of the Economic Cooperation Act, which provides:

> "The Administrator will request the Secretary of State to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal as reparations from the three western zones of Germany be retained in Germany if such retention will most effectively serve the purposes of the European recovery program."

1. Background.

Initial developments in the subject of German reparations may be summarized as follows:

At Yalta (February 1945) it was agreed that "Germany should be obliged to make compensation for damage in kind to the greatest extent possible."

At the Potsdam Conference (August 1945) it was agreed that Germany should be left enough resources to subsist without external assistance, but that production capacity not needed for production for the German peacetime economy should be removed or destroyed; and that as the principal standards for measuring Germany's peacetime needs, German average living standards during the period of occupation should not exceed the average standards of living of all European countries excluding the United Kingdom and USSR.

In December 1945 the Department of State issued a statement making clear the American conception of the meaning of the provisions of Potsdam on reparations. In the opinion of this Government, excess capacity having war potential should be removed from Germany or destroyed, but there should be no punitive destruction of capital equipment of value to the German peacetime economy. Germany should be allowed to produce enough so that she could export enough to pay for her essential imports. There should be no permanent ceiling on German peacetime production.

Pursuant to the understanding reached at Potsdam, the four military governors agreed in March 1946 on a plan for reparations setting forth the levels of industry which would determine the amount of equipment to be made available as reparations. Permitted steel production was set at 5.8 million tons a year, and the production capacity to be left in Germany at 7.5 million tons.

By reason of the inability of the Control Council to make any progress on the subject of economic unity, General Clay announced in May 1946 that the United States would not participate further in the allocation of reparations by the Allied Control Authority. There were no further allocations by The Control Authority, except for subsequent modification with respect to general purpose equipment from war plants.

In September 1946, Secretary Byrnes at Stuttgart stated that there would have to be changes in the agreed level of industry if Germany were not to be administered as an economic unit, and pointed out that there was no room for reparations from current production.

In August 1947, the United States and United Kingdom Military Governors published a revised level of industry plan for the Bizone area, which was based upon the retention of sufficient capacity to approximate the level of production prevailing in Germany in 1936. In view of the substantially increased population of the Bizone, this meant production per person at the rate of approximately 75 percent of the 1936 level. The permitted level for steel production of the Bizone on this basis was fixed at 10.7 million tons of ingots and sufficient capacity was to be retained to produce that tonnage.

In October 1947, the United States and United Kingdom Military Government authorities published a list of 682 plants to be removed from the Bizone, and soon thereafter the French published a list of 233 plants to be removed from the French Zone of occupation. The term "plant" in this context means "equipment," which may vary from a single machine to the entire equipment of an operating concern; it does not, however, ordinarily include the buildings or drawings, patterns, jigs, tools, dies, etc.

Meantime, in January 1946, the machinery for allocation of these plants had been established by the execution of the Paris Reparation Agreement. The agreement established the Inter-Allied Reparation Agency (IARA) with the function of sub-allocating among the 18 signatory states 75 percent of the equipment allocated by the Control Council for removal from the Western Zones (the other 25 percent being allocated by the Control Council to the USSR and Poland). The IARA states were:

Albania	Greece
Australia	India
Belgium	Luxembourg
Canada	Netherlands
Denmark	Norway
Egypt	New Zealand
United States	Czechoslovakia
France	Union of South Africa
United Kingdom	Yugoslavia

(A year and a half ago the division of India into two autonomous states added a nineteenth country, Pakistan, to the IARA membership).

The only allocations made by the Control Council out of the 915 plants (682 from the Bizone and 233 from the French Zone) listed for removal in the three Western Zones of Germany consisted of certain advance transfers and general purpose equipment from war plants, all before the end of 1947. In June 1948, after the breakdown of the Control Council, additional plants were made available to IARA by action of the respective Western Zone Commanders. No plants were made available to the Soviet Union, but it was announced that the matter would be considered further when the blockade of Berlin was lifted.

Early in 1948, the various interested agencies of the United States Government, with French and British cooperation, began a review of plants listed for removal from the Western Zones, to determine whether their removal would be consistent with plans for European economic recovery. The ECA was not an active participant in this work, but was represented by an observer, who attended meetings of established working groups, and studied all relevant documents. The Administrator's purpose in designating such an observer was to familiarize himself with the reparations problem in general and to have the benefit of all prior reviews of this problem undertaken by the Government.

2. ECA Actions and Recommendations.

On August 24, 1948, the ECA Administrator appointed an Industrial Advisory Committee consisting of Mr. George M. Humphrey, president of M. A. Hanna Company, as Chairman; Mr. Frederic V. Geier, president of Cincinnati Milling Machine Company; Mr. John L. McCaffrey, president of International Harvester Company; Mr. Gwilym A. Price, president of Westinghouse Electric & Manufacturing Company; and Mr. Charles E. Wilson, president of General Motors Corporation. The ECA Administrator felt that the ability of these men was of such an order that their views as to which plants should be allowed to remain to produce in Germany would constitute the best judgment which could be brought to bear on the problem.

At the first meeting of this Committee, the Administrator invited members of the staffs of the Congressional Committees most interested: the Senate Foreign Relations Committee, the House Foreign Affairs Committee, both Senate and House Appropriations Committees, and the Joint Committee on Foreign Economic Cooperation. After this meeting he wrote to the Chairman of those Congressional Committees requesting that they furnish him with the names of any plant or plants, currently scheduled for reparations, which, in the opinion of the Congressional Committees, should be investigated by Mr. Humphrey's Committee for possible retention. As a result, he received from the staffs of the Congressional Committees concerned the designation of some 50 plants which he added to a list of plants already reserved for further consideration. These plants were not officially recommended by the Congressional Committees themselves, but the Administrator felt nonetheless they must be given careful consideration. On August 31, 1948, he had prepared a list of these plants, together with all plants which were being considered for retention as a result of the studies made by other United States Government agencies.

At the recommendation of the Committee, the services of Mr. George Wolf, president of U. S. Steel Export Company, and of four leading industrial engineering firms—Coverdale & Colpitts, F. H. McGraw & Company, Sanderson & Porter, Stone & Webster Engineering Corporation—were secured in order to obtain a survey of each plant under consideration. Mr. Wolf, who had made during the summer a study of the steel situation in the Bizone under the auspices of the Joint Congressional Committee, the Army and the ECA, inspected the steel plants on the list, and the engineering firms inspected all other plants. The Committee proceeded to Europe at the beginning of

December 1948. It considered the reports of Mr. Wolf and the engineering firms, and its members visited plants in Germany. The Administrator joined them on December 6 in London, where meetings were held with British and French representatives, with Assistant Secretary of State Saltzman present and with Ambassador Douglas acting as Chairman. The principal purpose of holding these meetings in London was to afford the Committee an opportunity to hear and exchange views with representatives of the occupying powers of the other two zones in Western Germany.

The recommendations of the Committee have now been transmitted to the Administrator, and he has requested the Secretary of State to obtain the agreement of the countries concerned to the retention in Germany of the plants recommended by the Committee in the interests of the European Recovery Program. Since the recommendations are now the subject of intergovernmental negotiations, it has been agreed with the Department of State that they will not be made public at this time.

Q. SHIPPING.

1. ECA's Transportation Functions.

The ECA is not a shipper; it routes no cargoes, hires no forwarders or brokers, makes no bookings, charters no vessels, and handles no shipping arrangements. Since available ocean shipping and United States rail facilities have been able to handle the movement of recovery program cargoes without undue strain, these matters have been left to the channels of private trade in accordance with the provisions of Section 112(h) of the Economic Cooperation Act.

The functions of the ECA in the transportation field are of two sorts. In the first place, it is responsible for supervising the expenditure of ECA funds for the payment of ocean freight, implementing requests of the participating nations for procurement authorizations for freight purposes, and establishing regulations defining the circumstances under which the participating nations may secure ECA reimbursement for dollar port charges.

Secondly, it administers certain other provisions of the Act, the most important of which is Section 111 (a) (2), the so-called American-Flag Rule, relating to the participation of American-flag vessels in the shipment of cargoes purchased with ECA funds and shipped from the United States.

2. Cargo and Tonnage Position and Prospects.

To understand the transportation problems involved in administering the ECA program of United States aid, it should be realized that world fleets are expanding at a rather rapid rate while world cargo requirements are stationary or declining.

a. The World Position.

Before the war the maritime nations of Europe traditionally depended upon shipping for a significant portion of their foreign exchange earnings. During the war these nations suffered severe declines in their merchant marines, as a result of heavy war casualties, while the United States expanded its dry-cargo and tanker tonnage through a remarkable construction program which left the United States, at the end of the war, with a fleet five times as large as it had in the beginning. Since the end of the war, foreign nations have been expanding their merchant marines again, partly by purchase from the United States (this phase ended prior to the commencement of the ERP) and partly by construction, while the United States has been contracting its operating fleet by selling vessels abroad, by laying them up, and by scrapping them.

At the present time, the shipyards of Europe, except Italy, are operating at full capacity. It is reported that over eight million tons of shipping are under construction or on order in foreign yards, a major part being in the United Kingdom and Sweden. This construction will result in a continued increase in foreign-flag tonnage of several million tons annually.

With regard to world cargo requirements, there are conflicting trends. On the one hand, the economic recovery of Europe should lead to an expanded world trade and a correspondingly increased movement of liner cargo. On the other hand, the volume of bulk-cargo shipments, which was unprecedentedly large and abnormal immediately after the war, largely for relief purposes, has now fallen off sharply. In 1947, 41 million tons of coal and grain were carried from the United States to Europe alone. In normal times, no significant amounts of coal move from the United States to Europe and only comparatively small tonnages of grain. The revival of European coal and grain production has caused a sharp decline in the coal and grain movement. This particular traffic, which is now running at about 1½ million tons per month, may be expected to fall off still further in the near future and ultimately to dwindle to a few hundred thousand tons at most.

Broadly speaking, therefore, there is likely to be a continuing surplus of dry-cargo tonnage rather than a shortage. This conclusion has important consequences for ECA policy.

b. United States Export Prospects.

Exports from the United States are, of course, only a part of the world cargo movement and ECA-financed exports to the participating nations are, in turn, only a part of the total United States exports. Shipping, however, is a world commodity and, apart from temporary fluctuations and local shortages, the conditions in the tonnage market in any particular trade, such as that from the United States to Europe, may be expected to reflect world-wide conditions.

The dry-cargo movement must be divided into two categories, the berth or liner service and bulk or tramp service. For the past few months, the total liner cargo moving from the United States to the participating nations (including Germany) has been running at a level of seven or eight hundred thousand tons per month. Of this total, about two hundred thousand tons per month have been ECA-financed. The prospects are that approximately this rate of movement will be continued for some months to come. There may be some small increase in the ECA-financed liner cargo if the participating countries reduce their takings of grain and coal and increase their purchases of manufactured commodities. It is most unlikely, however, that there will be any significant increase in the gross tonnage of cargo moving on the berth services.

The bulk movement, which was running at a rate of nearly 2 million tons a month in the summer of 1948, had dropped, by late fall, to little over a million. The French coal strike led to an unexpected demand for several million more tons of United States coal for France which temporarily interrupted the decline in bulk exports. This emergency movement will be completed, however, in a matter of a few months, after which the bulk requirements may be expected to drop again to a million tons per month and ultimately to a much lower level.

It is essential to bear in mind, in considering ECA transportation policy, both the importance of this bulk traffic in the level of exports of the past two years, and its inevitable decline as European coal and grain production recover.

c. The United States Fleet.

Finally, the position and character of the United States merchant fleet must be kept in mind. Before the war, it was part of United States policy, as laid down in the Merchant Marine Act of 1936, to establish and maintain a fleet capable of carrying a "substantial portion" of this country's foreign trade. At that time, bulk cargoes were not a major element in American exports and no provision was made in that legislation for governmental assistance to American tramp vessels. The costs of operating American vessels in the bulk trades are so much higher than foreign vessels costs that it was quite impossible for American operators to compete for bulk cargo and no attempt was made to do so. Since the war, the enormous demand for tonnage to move coal and grain and the shortage of available foreign-flag tonnage for this purpose made it necessary for the United States to enter the tramp trades very heavily. Since, with few exceptions, American ship owners were unwilling to acquire substantial numbers of vessels on a permanent basis for tramp operation, the Ship Sales Act of 1946 provided that the Government could charter government-owned tonnage to private operators for this purpose. A natural consequence of the decline in bulk-cargo traffic, coupled with the increased availability of foreign-flag vessels, has been the gradual withdrawal of this large chartered fleet from service. Last July there were 545 vessels in operation under charter from the Maritime Commission, but the number had shrunk by January 1 of this year to 326. Of these, about 100 are available for non-military overseas tramp operations. There are about 95 privately owned vessels in addition suitable for such trades. Because of the higher costs of American tramp operations, the inevitable further decline in the demand for tramp tonnage would lead to the extinction of the U.S.-flag tramp fleet in the absence of special measures or fundamental maritime legislation providing financial assistance to tramp operators.

3. Financing Ocean Transport.

For the first year of the ERP the total tonnage from all sources may amount to approximately 34 million long tons, of which the tonnage from the United States may come to about 18,420,000 long tons. It has been estimated that the total ocean freight involved would amount to $693,400,000, including non-dollar and other freight charges not financed by ECA. Of this total, $430,000,000 have been programmed as payable from ECA funds.

Payments of ocean transportation are limited to those instances where U.S-flag vessels are employed for dollars or where dollar payments are required in accordance with the custom of the trade. Where the participating ERP country employs its own vessel for carriage of ECA cargoes to its own country, no dollar payments are made, regardless of the custom of the trade.

4. American-Flag Rule.

a. The Statute.

The following provision of the Economic Cooperation Act has become known as the "American-Flag Rule":

> ". . . The Administrator shall, in providing for the procurement of commodities under authority of this title, take such steps as may be necessary to assure, as far as is practicable, that at least 50 percentum of the gross tonnage of commodities, procured within the United States out of funds made available under this title and transported abroad on ocean vessels, is so transported on United States flag vessels to the extent such vessels are available at market rates." (Sec. 111 (a) (2))

When this section is examined in the context of other portions of the Act and in the light of the Congressional debates on the section itself, the following policies seem reasonably clearly revealed:

(1) Fifty percent of ECA-financed tonnage shipped from the United States must be carried in United States-flag vessels, *if such vessels are available at market rates.* If the rates for U.S.-flag vessels exceed foreign-flag rates, 50 percent carriage in United States bottoms is not required by the statute.

(2) Nevertheless, even when foreign-flag rates are lower than those on U.S.-flag vessels, Congress intended the Administrator to encourage carriage in U.S.-flag vessels *to the extent practicable* in the light of his basic responsibilities for fostering European recovery.

b. Administrative Procedures.

From the beginning of the program, the ECA has made every effort to secure compliance with the American-Flag Rule through the cooperation of the participating nations and to avoid, insofar as possible, any complex system of detailed rules and regulations. The general policy of administering the Act appeared to require this approach.

In the first place, the Administrator is charged by Section 112 (h) of the Act with utilizing private channels of trade to the maximum extent consistent with the accomplishment of the basic purposes of the law.

The laying down of any detailed system of policing in order to insure the adequate use of American tonnage would inevitably interfere to some extent with the normal operations of the private market for shipping services.

Second, any such detailed administrative regulation of individual shipments would involve a substantial burden of administrative expense both for the United States Government and for the private shippers and shipping companies subject to such regulation.

Third, one of the basic purposes of the Economic Cooperation Act, as expressed in Section 102 (b), is to furnish assistance to the participating countries "in such a manner as to aid them through their own individual and concerted efforts to become independent of extraordinary outside economic assistance . . ." The recovery of the foreign shipping industry, to the extent it is consistent with our own merchant marine policy as expressed in the Merchant Marine Act of 1936 and in Section 111 (a) (2) of the Economic Cooperation Act, is therefore desirable.

Accordingly, the ECA advised the Organization for European Economic Cooperation that the European nations should recognize the responsibility that they had for insuring compliance with the American-Flag Rule. The OEEC has been informed on frequent occasions that as long as their cooperative activities appear to be effective in producing the required division of cargo, no rigid controls would be imposed. On the other hand, the ECA has made clear its basic responsibility to the Congress to see to it that Section 111 (a) (2) was complied with and, if voluntary cooperation appeared to be inadequate, that a more rigid and mechanical system of control would have to be applied. The OEEC was requested:

(1) To make monthly reports of movements of ECA cargo from the United States to the participating nations by flag of vessel;
(2) To submit estimates of probable future movements of such cargo for three month periods;
(3) To formulate a plan by means of which the participating nations could themselves insure compliance with the American-Flag Rule.

The Maritime Transport Committee of the OEEC has on numerous occasions demonstrated its desire to cooperate and has developed a reporting procedure for carrying out the undertaking of the OEEC under (1) and (2) above. The Committee has taken the view, up to this point, that no formal plan for a system of enforcement of the American-Flag Rule was necessary but that by joint and individual action, the member nations would see to it that this rule was complied with.

The ECA has followed the progress of shipments and has negotiated on frequent occasions with participating countries for the correction of short-falls in the use of American tonnage.

The voluntary method has produced satisfactory over-all results up to this point, although occasional complaints have been made by American operators. There are, however, problems of a special nature which have arisen in each of the three fields of bulk-cargo movements, berth-cargo movements and tanker movements.

c. The Rule in Operation.

The difficulties in the bulk-cargo field arise largely because of the difference in costs in the operation of U.S.-flag and foreign-flag tramp vessels. As long as tonnage to move bulk commodities was in heavy demand, the market rate for such tonnage, which is competitively determined, remained well above American costs of operation. With the decline in the bulk-cargo movement which occurred during 1948, however, a tonnage surplus developed which drove foreign-flag rates well below the level which American operators could accept.

This development had two consequences—one related to the dollar costs to ECA of the recovery program, and the other related to the effects on the European economy of a high delivery price of coal. Requiring 50 percent carriage in U.S.-flag vessels meant that the ECA was financing cargo movements at a level several dollars per ton above that at which foreign vessels could be secured. A serious doubt arose whether, if there were ample foreign flag tonnage available to carry more than 50 percent of the bulk cargo at rates so far below the American-flag rate, the Administrator was justified in spending the additional ECA funds required in using the American ships, in view of the provisions of Section 111 (a) (2) that the American-flag provision need be enforced only insofar as American vessels were available at market rates.

As long as the discrepancy between the American and foreign rates remained small and shipping shortages continued, payment of the differences was justified on the ground that the withdrawal of some American tonnage would create a shortage of ships which would drive rates back up above previous American-flag level. During the fall of 1948, however, the Administrator became convinced that the rate discrepancy was growing too great to be justified on this basis. Accordingly, on December 3, he wrote the Joint Congressional Committee on Foreign Economic Cooperation that it was his intention, after January 1, not to require the use of more U.S.-flag ships than were needed by the foreign nations unless such ships were available at competitive rates. He had previously written the United States Maritime Commission on October 7 requesting consideration of the rate-spread problem.

The losses caused by the French coal strike have resulted in an unexpected need for continued large American coal exports, a sustained demand for bulk cargo carriers and a decrease in the rate differential. There has hence been no occasion to put into effect the decision announced on December 3, and this state of affairs seems likely to continue at least until April 1, 1949.

There has been much misunderstanding of the meaning of the Administrator's announcement and of the reasons lying behind it. It does not imply that after the terminal date no United States vessels may be used in the bulk trade, or that, if he deemed it necessary in case of a shortage of ships, he would not continue to pay a premium for United States vessels. It merely implies that unless United States vessels are available at what may reasonably be construed as world market rates, the ECA will not require the use of such vessels.

For the period April 3-December 31, 1948, the difference between the freight payments actually made on ECA-financed coal and grain cargoes and those that would have been made if exclusively foreign-flag tonnage had been used at the prevailing foreign-flag rate, is estimated at about $10 million. In the fiscal year 1949/50, should the differential between the American and foreign rate average $3 per ton over the year, the corresponding figure might be as much as $20 to $25 million on the volume of bulk cargo estimated to move.

The additional cost of $10 million for using American-flag vessels instead of foreign-flag vessels exaggerates the net cost of this operation to the United States Government as a whole. If American-flag vessels disappear from the market, rates for transportation on foreign-flag vessels may be expected to rise. Although the net cost to the United States Government of using American vessels would be reduced to the extent that the operators were required to pay charter hire to the Maritime Commission at an approximate rate of $8,000 per vessel per month, nevertheless the gross figures given above would represent the actual charges against ECA funds otherwise available for European Recovery.

Additional effects of the higher U.S.-flag freight rate, which are perhaps more serious, are the influence upon European coal prices and indirectly on the organization of industry in Europe and generally on the European economy. It is reported that the British and Polish export prices of coal are currently set at a level just below the price of American coal delivered in American ships. In the case of Britain and probably of other sources, these export prices are several dollars above the domestic price and clearly a good deal above domestic costs. Should it be possible to transport the bulk of the United States coal destined for Europe at a freight rate several dollars below the present U.S.-flag rate, this in all probability would result in reductions in the price to importing countries of coal purchased from within Europe. A reduction in the internal price of coal within the importing countries would also lessen the inflationary pressures caused by high prices for coal used both in industry and for household purposes.

Moreover, the competitive relations between coal-producing and coal-importing countries are seriously disturbed by the maintenance of an artificially high price for the export coal and this distortion may have, in some cases, important effects inhibiting recovery in the coal-importing countries. Since the promotion of recovery throughout Europe is the basic purpose of the Economic Cooperation Act, this is a consideration which the Administrator must take account in considering how much of a departure from competitive world freight rates he can justifiably permit before relaxing his insistence that at least 50 percent of American-flag vessels must be used.

In the liner trades, no corresponding rate problem exists. In these trades uniform rates are established by conferences participated in jointly by American and foreign shipping companies and sanctioned by law in the Shipping Act of 1916. ECA records indicate that approximately 60.3 percent of liner cargoes were carried in United States-flag vessels up to December 31, 1948.

The problem with respect to tankers is entirely different. The proportion of American-flag participation in the United States export traffic has been well below 50 percent. But this is simply because the bulk of the available American-flag tankers have been, apart from temporary periods, almost continually employed in the off-shore trade. In view of this fact, to demand that existing tanker charter arrangements be shifted merely to return American flag tankers from the off-shore trades to the United States export trades seemed neither necessary nor practicable.

d. Division of Cargoes to Date.

In the early stages of the program much ECA financing was by way of reimbursement for past transactions. Hence, many cargoes could not be identified as ECA-financed until some time after they had actually moved, and it was impossible to compile accurate estimates of the proportion of ECA shipments made on U.S.-flag vessels. A large part of this backlog has now been cleaned up and it is possible to compile information which is fairly reliable. Until reimbursement has been requested for all shipments made during 1948, however, it will be impossible to compile final figures on the division of cargoes.

There are three sources of information. The OEEC Maritime Transport Committee in Paris makes monthly reports, the ECA compiles data from its own records, and information is available from the Bureau of the Census on the division by flag-of-vessel of all exports from the United States. This last set of figures does not, of course, show ECA-financed cargo separately and it therefore cannot be used to test compliance with the American-Flag Rule. It does, however, give some indication of the way in which the American-Flag Rule is affecting the position of the American Merchant Marine in the total export picture.

The participating nations taken as a group had substantially complied with the American-Flag Rule on all cargoes for which ECA reimbursement had been sought through December, 1948. For bulk shipments, ECA records show 50.1 percent carried in U.S.-flag vessels, for berth shipments 60.3 percent, for tanker shipments 23.4 percent, and for all types of shipment taken together 48.4 percent. Information supplied by the Maritime Transport Committee of the OEEC is in substantial agreement with the above ECA records when due allowance is made for difficulties in statistical concepts and methods of compiling the data. In interpreting the figures, it should be remembered that they do not include shipments to the Far East, of which over 90 percent is carried in American vessels.

e. Problems for the Future.

During the coming year there is every reason to believe that it will become more difficult rather than easier to require 50 percent carriage of cargoes in U.S.-flag ships. The reasons for this are the following:

In the first place, the total volume of cargo to move is not likely to increase above present levels and in the bulk category, as indicated above, will almost certainly decrease somewhat after the middle of the year.

Second, the dollar shortage of the European nations will continue to be acute. This means that they will have very strong incentives to economize on the use of dollars by avoiding American-flag vessels and using soft-currency vessels whenever possible, and to attempt to earn dollars by offering their own vessels for employment in the United States export trade at low rates.

Third, the net effect of the two factors just described is likely to be a renewed widening of the gap between U.S.-flag and foreign-flag freight rates on bulk shipments. As pointed out above, this gap has narrowed in recent weeks, partly as a normal seasonal result of winter weather and partly as a consequence of the abnormal French demand for coal resulting from the French coal strike. As the effect of both of these factors wears off, with the coming of spring, it is to be expected that foreign-flag charter rates will fall back toward the levels of early fall 1948. To the foreign exchange incentive to avoid the use of American-flag vessels this adds a further direct cost incentive for exporters in this country who wish to maintain their competitive position in European markets.

In the tanker field these pressures are not likely to be important. The balance of ships and cargo will require that U.S.-flag tankers be fully used, and if dollars must be paid for tanker freights in order to secure the movement of the cargo, it is a matter of small interest to the foreign countries whether such tankers are employed in the small United States export trade or in the larger movements from offshore areas. Furthermore, tanker rates are set in a world-wide market and there are no such discrepancies between U.S.-flag and foreign-flag rates as appear in the dry-cargo tramp market.

In the liner areas, it is expected that there will continue to be pressure for use of foreign-flag vessels. This will be of two sorts. In the first place, the same dollar considerations which apply to tramp movements apply to the liner traffic. Even where American vessels are able to offer the same or better service at identical rates, foreign nations wishing to conserve their dollar position will have a strong incentive to use non-dollar ships. Second, whereas the conference machinery has so far been successful in maintaining a fairly stable standard rate structure applying equally to vessels of all flags in the berth services, such a rate structure will be menaced by the development of a world shipping surplus. In the presence of such a surplus the amount of space offering at cut rates below conference levels may become significant. American vessel costs prevent American operators from participating in this kind of a rate war, thus adding additional incentives to shippers to use foreign-flag tonnage.

Two things should be kept in mind in appraising the significance of the American-Flag Rule for the American Merchant Marine. In the first place, the total volume of bulk cargoes to be shipped from the United States to Europe is almost certain to fall in the long run to levels considerably below those now prevailing. The American-Flag Rule cannot be expected, therefore, to maintain the employment of vessels and seamen at their present levels.

In the second place, it is the aim and object of the recovery program to render the European nations independent of continued aid. Insofar as this aim is successful, therefore, the proportion of our total exports financed by the ECA mechanism will decline and the support which the American-Flag Rule gives to the Merchant Marine will, therefore, become smaller and smaller as time goes on.

R. PRICE REVIEW

In accordance with the mandate in the Economic Cooperation Act private channels of trade are used to the greatest extent practicable in ECA-financed transactions. The supervision of the prices involved in private transactions, negotiated in accordance with normal commercial practices by private sellers and importers, presents complex administrative problems. After studying various alternatives, the ECA decided that the only feasible procedure was to require a price certification by the supplier, and to buttress such certification with ECA audits of completed transactions and the retention by the ECA of the right to require reimbursement from the participating country for transactions at excessive prices. The first ECA procurement regulation, issued May 15, 1948, therefore required that the supplier certify that his price did not exceed the established or market price for the commodities or the price paid him for similar commodities by other customers similarly situated.

1. Techniques of Price Supervision.

Section 202 of the Foreign Aid Appropriation Act provided that no funds appropriated by the Act "shall be used for the purchase in bulk of any commodities * * * at prices higher than the market price prevailing in the United States at the time of the purchase adjusted for differences in the cost of transportation to destination, quality, and terms of payment * * *".

The ECA amended its procurement regulations to incorporate, with the previously developed administrative price limitations, measures insuring compliance with the requirements of Section 202. The revised procedure, which is presently in effect, retained the use of a supplier's certificate and the right to seek reimbursement from the participating country as basic aspects of ECA price administration. The certificate required from each supplier, which must be submitted to the ECA as one of the standard documents required for reimbursement by the ECA, includes provisions that the purchase price satisfies Section 202, that the contract price is no higher than the price charged by the supplier to customers similarly situated, that he has allowed all discounts for quantity purchases and prompt payment customarily allowed other customers similarly situated, that he has not given or received any side payments or "kick backs", that payment under the contract is not based on cost-plus-a-percentage-of-cost, and that in the event of any breach by him of the terms of the certificate, he will make appropriate reimbursement to the ECA.

All Procurement Authorizations issued to participating countries incorporate both a general provision that the country will promptly repay to the ECA on demand any disbursements which the Administrator determines were improperly made and a specific provision that, with respect to purchases in violation of Section 202, the ECA will not make payments directly to a participating country, and will seek reimbursement from such country for payments made under letters of commitment.

These procedures were adopted by the ECA as the only practical method, short of evolving a complete system of pre-transaction price controls, of assuring compliance with the law and of maintaining reasonable price levels for ECA-financed procurement. In addition to the supplier's certificate and the right to seek reimbursement for improper transactions, the ECA naturally relies to a considerable degree on competitive market forces as an important factor in securing proper prices. The great mass of ECA-financed procurement is accomplished through arm's-length transactions in which the importer is trying to secure the best value he can in making his purchase. The coupling of these competitive forces with the requirement that the supplier must certify his price as being a legal one and the reviewing by ECA of completed transactions, results in firm, if indirect, control of the prices paid for ECA commodities.

A system involving the fixing of all prices in advance of transactions was rejected by the ECA, not only because of the extensive personnel demanded by such a system, but also because the prices so fixed would tend to become the floor to which sellers would raise their prices. Moreover, the volume of ECA-financed purchases of some commodities is so substantial that pre-determination of prices by the ECA would influence and possibly distort the market price structure.

In keeping with its policy of generally avoiding the fixing of prices in advance of transactions, the ECA does not clear in advance the price provisions in contracts for ECA transactions, but requires that buyers and sellers negotiate contract terms in accordance with customary trade practices. In many cases, however, involving commodities which are in short supply within the United States, the prices which foreign purchasers are willing to pay may be considerably higher than prevailing prices for such products charged in United States domestic sales. A substantial number of proposed transactions involving short-supply items have been referred to the ECA where it was believed the prices might be excessive. Among the transactions rejected by the ECA have been individual high-price sales of reconditioned tractors, steel, farm machinery, and crude oil.

2. Review of Prices.

The price review is one aspect of the general post-audit made of all ECA-financed transactions. In conducting such post-audit price checks, the ECA makes a complete review of prices paid for key commodities, such as petroleum, coal, steel, machinery, cotton, non-ferrous metals, and fertilizer, and reviews on a sampling basis the prices of other commodities. This system will result in examination of the prices of commodities constituting at least 75 percent of the volume of ECA-financed purchases.

The normal price check involves an analysis and review of contract terms, prices, and quality. Comparison is made with similar transactions to determine out-of-line prices, and prices are also considered in reference to all available market-price information. In facilitating the review relating to like transactions, a number of price comparison studies of important commodities have been made.

Information concerning price levels of commodities traded on commodity exchanges is of little value unless interpreted while all the known factors affecting the market are fresh in mind. The ECA therefore requires private exporters of commodities traded on such exchanges to submit copies of purchase orders for ECA-financed transactions immediately upon their execution. ECA commodity experts then make a finding on price in the light of all factors affecting the current market. Such price-finding is subjected to further review in the post-audit price review.

Spot checks are made by the ECA of the cost of commodities procured for participating countries by United States Government agencies. The prices of commodities procured by the Bureau of Federal Supply and the Department of the Navy and Army have been determined by competitive bids; bread grains and coarse grains, procured by the Department of Agriculture, are priced at the cost of acquisition.

In addition to the various price studies undertaken in connection with the post-audit price reviews, the ECA has made continuing study and re-examination of its over-all price policies. The Administrator has appointed an advisory Price Policy Committee, composed of individuals with considerable experience in business, economics, and governmental price control operations, which subjects ECA price policies to careful scrutiny.

3. Procurement Policy and Elimination of Unnecessary Dollar Payments.

Closely related to the price review is the examination of procurement policies and practices followed by the participating countries in making ECA-financed purchases. The ECA, in its review of completed transactions, makes a detailed examination of procurement policies, with respect to such matters as proper detailing of specifications and quality schedules, elimination of frills and unnecessary extras for export packaging, proper scheduling of purchases, and the placing of orders with low-priced sellers.

Similarly, the ECA carefully scrutinizes all transactions in light of the policy of limiting ECA-financing, wherever practicable, to the actual dollar acquisition cost, and to exclude from ECA-financing any service rendered or value added to the commodity in the country of destination. Examples of additional costs incurred in Europe which have been excluded from the amount approved for ECA-financing are the costs of assembling and reshipping automotive parts shipped to Europe, the costs of blending and packaging lubricants shipped to Europe in bulk, and various costs of distribution and servicing performed in participating countries.

The ECA has also adopted, in accordance with the common government practice of acting as a self-insurer, the policy that ECA funds shall not be used for the payment of marine insurance on shipments of ECA-financed commodities. ECA funds which would otherwise be required to pay insurance premiums are thus made available for procurement of additional aid. The policy places no risk on the supplier, who will continue to be paid upon delivery of the commodities to shipside. The importer may insure in his local currency or by use of non-ECA dollars.

4. Quality and Weight Controls.

Quality and weight controls are an important factor in good price administration. The interest of the importer can normally be relied upon to insure that quality and weight specifications on purchase contracts will be met by the seller. The ECA receives copies of certificates of quality and quantity furnished in accordance with normal trade practices. In addition, the ECA makes spot-check examinations of quality and weight commodity shipments as they arrive in Europe. These reports are used in the post-audit of ECA transactions.

Experience has shown that, in the case of certain commodities, additional safeguards against the risk of ECA payment for off-quality and short weights are required. In these cases, the ECA has imposed additional quality and quantity checks. Quality controls were recently imposed with respect to cotton, based on the finding that the quality descriptions employed in ECA-financed purchases of cotton did not always conform with the quality descriptions normally employed in domestic cotton sales. These controls call for the sampling and classification of ECA-financed cotton by the Department of Agriculture. On the basis of the results of such sampling, the ECA is able to determine whether there are any deficiencies in the quality of the cotton shipped and to check whether appropriate claims for refund were filed by the buyer and proper settlement reached by the buyer and seller.

ECA regulations require that the amount of settlement of claims for quality or quantity, or other failure by the seller to perform, shall be reported and refunded to the ECA, thus avoiding the danger of establishing uncontrolled private dollar balances in favor of foreign importers.

STATISTICAL ANNEX

Tables Relating to Chapter IV.

TABLE IV-1.

Gross National Expenditure for Goods and Services, 1946-48

Period	Total gross national expenditure	Export surplus[1]	Domestic expenditure: Total	Domestic expenditure: Personal consumption expenditure[1]	Domestic expenditure: Gross private domestic investment	Domestic expenditure: Government expenditure excluding foreign aid[1]	Export surplus as percent of total
	Billions of dollars; seasonally adjusted annual rates						
1946—First quarter	196.1	6.9	189.3	136.1	21.3	31.9	3.5
Second quarter	202.8	9.1	193.7	142.1	25.1	26.5	4.5
Third quarter	215.6	7.9	207.7	151.8	28.1	27.9	3.7
Fourth quarter	222.4	7.3	215.1	156.0	31.3	27.7	3.3
1947—First quarter	226.4	11.2	215.2	157.5	32.6	25.1	4.9
Second quarter	228.3	12.5	215.8	163.7	26.4	25.8	5.5
Third quarter	227.9	10.9	217.0	165.0	25.6	26.3	4.8
Fourth quarter	243.8	10.5	233.3	170.5	35.4	27.3	4.3
1948—First quarter	244.9	7.8	237.1	171.5	38.7	26.9	3.2
Second quarter	250.4	6.5	243.9	175.9	37.6	30.3	2.6
Third quarter	254.9	5.2	249.7	177.9	39.0	32.7	2.0
Fourth quarter[2]	260.7	6.6	254.1	179.4	40.0	34.7	2.5

[1] The export surplus represents the difference between our exports and imports of goods and services, including income on investments. Gifts and grants made by the public and the Government have been deducted from personal consumption and Government expenditure.

[2] Estimates based on incomplete data.

Note.—Detail will not necessarily add to total because of rounding.

Source: Based on Department of Commerce data.

TABLE IV-2.

Wholesale Prices, Export Surplus, and Foreign Aid, 1946-48

Period	Index of wholesale prices, 1926 = 100	Export surplus of goods and services[1]: Total	Financed by Government aid: Total[2]	Financed by Government aid: ERP	Financed by Government aid: Other[2]	Financed by other means[3]
		Billions of dollars, annual rate				
1946—First quarter	107.9	6.9	5.0	..	5.0	1.9
Second quarter	111.4	9.1	5.7	..	5.7	3.3
Third quarter	125.9	7.9	6.2	..	6.2	1.8
Fourth quarter	138.2	7.3	3.3	..	3.3	4.0
1947—First quarter	145.7	11.2	5.2	..	5.2	6.0
Second quarter	147.7	12.5	8.0	..	8.0	4.5
Third quarter	153.9	10.9	6.8	..	6.8	4.1
Fourth quarter	160.4	10.5	2.9	..	2.9	7.6
1948—First quarter	162.7	7.8	5.3	..	5.3	2.5
Second quarter	164.3	6.5	3.3	0.8	2.5	3.2
Third quarter	168.9	5.2	4.3	2.3	2.0	.9
Fourth quarter[4]	163.8	6.6	6.5	4.4	2.1	.1

[1] Includes income on investments.

[2] Includes net grants and loans but excludes subscription to the International Bank and International Monetary Fund.

[3] Includes net liquidation of foreign gold and dollar assets, net dollar disbursements by the International Bank and the International Monetary Fund, net investment of United States private capital, net private gifts and remittances, and errors and omissions.

[4] Estimates based on incomplete data.

Note.—Detail will not necessarily add to totals because of rounding.

Source: Department of Labor and Department of Commerce.

TABLE IV-3.

The International Transactions of the United States, 1946-48

(Millions of dollars)

Item	1946	1947			1948		
		Total	First half	Second half	Total [1]	First half	Second half [1]
Exports of goods and services:							
Recorded goods [2]	10,188	15,339	7,961	7,378	12,495	6,558	5,937
Other goods [3]	1,686	717	301	416	810	489	321
Total goods	11,874	16,056	8,262	7,794	13,305	7,047	6,258
Services	2,272	2,611	1,376	1,235	2,189	1,082	1,107
Income on investments	820	1,074	455	619	1,282	536	746
Total exports	14,966	19,741	10,093	9,648	16,776	8,665	8,111
Imports of goods and services:							
Recorded goods	4,908	5,733	2,861	2,872	6,902	3,487	3,415
Other goods [3]	260	338	208	130	615	324	291
Total goods	5,168	6,071	3,069	3,002	7,517	3,811	3,706
Services	1,783	2,165	996	1,169	2,467	1,164	1,303
Income on investments	216	227	106	121	269	112	157
Total imports	7,167	8,463	4,171	4,292	10,253	5,087	5,166
Surplus of exports of goods and services:							
Recorded goods	5,280	9,606	5,100	4,506	5,593	3,071	2,522
Other goods	1,426	379	93	286	195	165	30
Total goods	6,706	9,985	5,193	4,792	5,788	3,236	2,552
Services	489	446	380	66	—278	—82	—196
Income on investments	604	847	349	498	1,013	424	589
Total surplus of exports	7,799	11,278	5,922	5,356	6,523	3,578	2,945
Means of financing surplus of exports of goods and services:							
Net liquidation of gold and dollar assets by foreign countries	1,968	4,514	2,341	2,173	700	920	—220
Net dollar disbursements by:							
International Monetary Fund	—	464	56	408	179	154	25
International Bank	—	297	92	205	206	170	36
Net U.S. private capital outflow to foreign countries	335	727	508	219	925	446	479
Net U.S. Government loans	2,774	3,900	2,392	1,508	402	547	—145
Net U.S. Government unilateral transfers	2,279	1,812	901	911	4,464	1,602	2,862
Net private unilateral transfers	598	568	264	304	598	319	279
Total means of financing	7,954	12,282	6,554	5,728	7,474	4,158	3,316
Errors and omissions	—155	-1,004	—632	—372	—951	—580	—371

[1] Estimates based on incomplete data.

[2] Figures for recorded exports of goods in 1946 and 1947 have been adjusted to include goods shipped to United States armed forces abroad for distribution to civilians in occupied areas in order to make them comparable with figures for 1948. Such shipments are included in exports as recorded by the Bureau of the Census in 1948 but were not so included in prior years.

[3] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area and other adjustments.

TABLE IV-4.
United States Merchandise Exports, Including Re-exports, By Areas, 1936-38 Quarterly Average, 1947, and 1948

Period	Total	Canada	Other western hemisphere	ERP countries [1]	Other Europe	Asia [1]	Australia and Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936-38	742	113	138	282	31	122	23	32
1947	3,835	519	1,027	1,323	118	562	80	205
1948 [2]	3,124	[3]	[3]	[3]	[3]	[3]	[3]	[3]
1947—First quarter	3,775	471	1,006	1,368	133	550	64	183
Second quarter	4,186	572	1,089	1,440	162	618	74	230
Third quarter	3,716	509	952	1,324	86	547	97	202
Fourth quarter	3,662	522	1,063	1,160	92	532	86	206
1948—First quarter	3,319	425	914	1,143	84	513	42	197
Second quarter	3,238	494	902	1,062	33	507	34	207
Third quarter	2,937	484	736	968	38	486	30	195
Fourth quarter [2]	3,000	[3]	[3]	[3]	[3]	[3]	[3]	[3]
	Percentage of total							
Quarterly average:								
1936-38	100	15.3	18.6	38.1	4.2	16.4	3.1	4.3
1947	100	13.5	26.8	34.5	3.1	14.7	2.1	5.4
1947—First quarter	100	12.5	26.6	36.2	3.5	14.6	1.7	4.8
Second quarter	100	13.7	26.0	34.4	3.9	14.8	1.8	5.5
Third quarter	100	13.7	25.6	35.6	2.3	14.7	2.6	5.4
Fourth quarter	100	14.3	29.0	31.7	2.5	14.5	2.3	5.6
1948—First quarter	100	12.8	27.5	34.4	2.5	15.5	1.3	6.0
Second quarter	100	15.2	27.8	32.8	1.0	15.7	1.0	6.4
Third quarter	100	16.5	25.1	33.0	1.3	16.5	1.0	6.6

[1] Turkey is included with ERP countries and excluded from Asia. Exports to Germany in the postwar period relate almost wholly to exports to the three Western zones.

[2] Estimate based on incomplete data.

[3] Not available.

Note.—Data in this table cover all merchandise, including re-exports, shipped from the United States customs area to foreign countries including, in 1947 and 1948, goods destined to United States armed forces abroad for distribution in occupied areas as civilian supplies.

Detail will not necesarily add to totals because of rounding.

Source: Department of Commerce.

TABLE IV-5.

United States General Merchandise Imports, by Areas, 1936-38 Quarterly Average, 1947, and 1948.

Period	Total	Canada	Other western hemisphere	ERP countries [1]	Other Europe	Asia [1]	Australia and Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936-38	622	86	145	152	30	183	10	17
1947	1,433	274	571	174	45	248	39	82
1948 [2]	1,726	[3]	[3]	[3]	[3]	[3]	[3]	[3]
1947—First quarter	1,412	244	561	173	37	281	47	69
Second quarter	1,449	268	591	165	42	255	54	74
Third quarter	1,323	269	527	160	56	202	25	83
Fourth quarter	1,549	314	606	197	47	254	30	101
1948—First quarter	1,794	328	700	230	45	326	48	116
Second quarter	1,693	355	623	223	49	316	34	94
Third quarter	1,715	410	577	228	49	296	48	107
Fourth quarter [2]	1,700	[3]	[3]	[3]	[3]	[3]	[3]	[3]
	Percentage of total							
Quarterly average:								
1936-38	100	13.8	23.3	24.4	4.8	29.4	1.6	2.7
1947	100	19.1	39.8	12.1	3.1	17.3	2.7	5.7
1947—First quarter	100	17.3	39.7	12.3	2.6	19.9	3.3	4.9
Second quarter	100	18.5	40.8	11.4	2.9	17.6	3.7	5.1
Third quarter	100	20.3	39.8	12.1	4.2	15.3	1.9	6.3
Fourth quarter	100	20.3	39.1	12.7	3.0	16.4	1.9	6.5
1948—First quarter	100	18.3	39.0	12.8	2.5	18.2	2.7	6.5
Second quarter	100	21.0	36.8	13.2	2.9	18.7	2.0	5.6
Third quarter	100	23.9	33.6	13.3	2.9	17.3	2.8	6.2

[1] Turkey is included with ERP countries and excluded from Asia. Imports from Germany in the postwar period relate almost wholly to imports from the three Western zones.
[2] Estimate based on incomplete data.
[3] Not available.
Note.—Data in this table cover all merchandise received in the United States customs area from foreign countries. General imports include merchandise entered immediately upon arrival into merchandising channels, plus entries into bonded customs warehouses.
Detail will not necessarily add to totals because of rounding.
Source: Department of Commerce.

TABLE IV-6.

United States Merchandise Export Surplus
1936-1938 Quarterly Average, 1947 and 1948

PERIOD	Total	Canada	Other western hemisphere	ERP countries [1]	Other Europe	Asia [1]	Australia & Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936-38	120	27	—7	130	1	—61	13	15
1947	2,402	245	456	1,149	73	314	41	123
1948 [2]	1,398	[3]	[3]	[3]	[3]	[3]	[3]	[3]
1947—First quarter	2,363	227	445	1,195	96	269	17	114
Second quarter	2,737	304	498	1,275	120	363	20	156
Third quarter	2,393	240	425	1,164	30	345	72	119
Fourth quarter	2,113	208	457	963	45	278	56	105
1948—First quarter	1,525	97	214	913	39	187	—6	81
Second quarter	1,545	139	279	839	—16	191	—	113
Third quarter	1,222	74	159	740	—11	190	—18	88
Fourth quarter	1,300 [2]	[3]	[3]	[3]	[3]	[3]	[3]	[3]
	Percentage of total							
Quarterly average:								
1936-38	100	22.9	—5.9	110.2	.8	—51.7	11.0	12.7
1947	100	10.2	19.0	47.8	3.0	13.1	1.7	5.1
1947—First quarter	100	9.6	18.8	50.6	4.1	11.4	.7	4.8
Second quarter	100	11.1	18.2	46.6	4.4	13.3	.7	5.7
Third quarter	100	10.0	17.8	48.6	1.3	14.4	3.0	5.0
Fourth quarter	100	9.8	21.6	45.6	2.1	13.2	2.7	5.0
1948—First quarter	100	6.4	14.0	59.9	2.6	12.3	—.4	5.3
Second quarter	100	9.0	18.1	54.3	—1.0	12.4	—	7.3
Third quarter	100	6.1	13.0	60.6	—.9	15.5	—1.5	7.2

[1] Turkey is included with ERP countries and excluded from Asia. Trade with Germany in the postwar period relates almost wholly to trade with the three Western zones.

[2] Estimate based on incomplete data.

[3] Not available.

Note: Detail will not necessarily add to totals because of rounding.

Source: Based on tables IV-4 and IV-5, above.

TABLE IV-7.

Production and Exports of Selected Non-Agricultural Commodities
1939, 1946, 1947, and 1948

Commodity and period	Unit	Production			Exports as percent of total production
		Total	For domestic use	For export	
Agricultural machinery and implements:					
1939	Mil. dol.	416	347	69	16.6
1946	" "	993 [1]	835	158	15.9
1947	" "	1,500 [1]	1,182	318	21.2
1948 Jan.-Sept. annual rate	" "			380	
Chemicals and related products: [2]					
1939	" "	3,298	3,123	175	5.3
1946	" "	8,600	8,077	523	6.1
1947	" "	[3]	[3]	828	[3]
1948 Jan.-Sept. annual rate	" "			799	
Coal, bituminous:					
1939	Mil. sh. tons	395	383	12	3.0
1946	" " "	532	491	41	7.7
1947	" " "	619	550	69	11.1
1948 Jan.-Sept. annual rate	" " "	579	531	48	8.3
Cotton cloth, including duck:					
1939 [4]	Mil. sq. yds.	9,046	8,679	367	4.1
1946	" " "	9,784	9,024	760	7.8
1947	" " "	10,495	9,058	1,437	13.7
1948 Jan.-Sept. annual rate	" " "	10,555	9,671	884	8.4
Electrical machinery and apparatus:					
1939	Mil. dol.	1,788	1,683	105	5.9
1946	" "	4,697	4,393	304	6.5
1947	" "	7,309	6,746	563	7.7
1948 Jan.-Sept. annual rate	" "	8,288	7,789	499	6.0
Lumber, sawmill products:					
1939	Mil. Bd. ft.	24,975	23,871	1,104	4.4
1946	" " "	34,932	34,283	649	1.9
1947	" " "	36,635	35,283	1,352	3.7
1948 Jan.-Sept. annual rate	" " "	37,332	36,631	701	1.9

Motor trucks: [5]					
1939	Thous.	710	558	152	21.4
1946	"	951	764	187	19.7
1947	"	1,239	988	251	20.3
1948 Jan.-Sept. annual rate	"	1,407	1,200	207	14.7
Passenger cars: [5]					
1939	Thous.	2,867	2,702	165	5.8
1946	"	2,194	2,050	144	6.6
1947	"	3,558	3,297	261	7.3
1948 Jan.-Sept. annual rate	"	3,711	3,476	235	6.3
Portland cement:					
1939	Thous. bbls.	122,259	121,113	1,146	.9 [6]
1946	" "	163,805	158,642	5,163	3.2 [6]
1947	" "	186,533	179,762	6,771	3.6 [6]
1948 Jan.-Sept. annual rate	" "	200,287	193,558	6,729	3.4 [6]

[1] Shipments. Production data not available.
[2] Data covers basic chemicals and selected allied and related products.
[3] Not available.
[4] Cloth, duck and tire fabric.
[5] Factory sales are used to represent production. Exports include completed cars and parts for assembly abroad.
[6] These percentages overstate export-production ratio because export figures include some finishing cements not included in the production figures.
Source: Department of Commerce.

TABLE IV-8.

Distribution of Selected Agricultural Products Moving into Consumption Channels, 1939 and 1946-48

Commodity and period	Distribution of supplies: Total [1]	Distribution of supplies: Exports and shipments [1]	Distribution of supplies: Military distribution	Distribution of supplies: Civilian distribution	Per capita civilian distribution	Exports and shipments as a percent of total distribution
	Million pounds	*Million pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Percent*
Food:						
Meat (carcass equivalent):						
1939	17,739	246	....	17,493	132.8	1.4
1946	23,469	1,215	887	21,367	153.4	5.2
1947	23,252	366	644	22,242	155.0	1.6
1948 [2]	21,792	166	394	21,232	145	.8
Dairy products (milk equivalent):						
1939	108,985	429	....	108,556	824	.4
1946	121,612	6,353	2,593	112,666	809	5.2
1947	119,621	4,586	1,391	113,644	792	3.8
1948 [2]	116,573	2,766	1,512	112,295	768	2.4
Food fats and oils, excluding butter: fat content basis):						
1939	4,612	365	....	4,247	32.2	7.9
1946	5,067	669	41	4,357	31.3	13.2
1947	5,373	617	60	4,696	32.8	11.5
1948 [2]	5,425	468	52	4,905	33.6	8.6
Canned fruit, excluding fruit juices (processed weight):						
1938-39 pack year	2,361	359	....	2,002	15.3	15.2
1946	3,224	202	89	2,933	21.1	6.3
1947	3,032	244	77	2,711	18.9	8.0
1948 [2]	3,007	85	110	2,812	19.2	2.8
Dried fruit (processed weight):						
1938-39 marketing year	1,186	478	....	708	5.4	40.3
1945-46 marketing year	1,110	288	25	797	5.9	25.9
1946-47 marketing year	954	299	14	641	4.5	31.3
1947-48 marketing year	1,159	497	9	653	4.5	42.9
Fresh fruits (farm weight):						
1939	21,359	1,277	....	20,082	152.5	6.0
1946	21,203	1,167	484	19,552	140.4	5.5
1947	22,547	1,445	213	20,889	145.6	6.4
1948	20,724	913	162	19,649	134.4	4.4

Canned vegetables (processed weight):						
1938-39 pack year	4,163	57	....	4,106	31.3	1.4
1946	6,948	361	151	6,436	46.2	5.2
1947	6,242	222	214	5,806	40.5	3.6
1948 [2]	6,020	100	345	5,575	38.1	1.7
Fresh vegetables (farm weight):						
1939	32,153	134	....	32,019	243	.4
1946	38,608	494	470	37,644	270	1.3
1947	36,677	475	208	35,994	251	1.3
1948 [2]	37,417	175	250	36,992	253	.5
	Million dozen	*Million dozen*	*Million dozen*	*Million dozen*	*Number of eggs*	
Eggs (fresh egg equivalent):						
1939	3,418	3	....	3,415	311	.1
1946	4,846	414	94	4,338	374	8.5
1947	4,850	229	79	4,542	380	4.7
1948 [2]	4,896	194	86	4,616	379	4.0
Food and nonfood:	*Million bushels*	*Million bushels*	*Million bushels*	*Millions bushels*	*Pounds food use*	
Wheat (grain equivalent): [3]						
1939	782	93	....	689	218	11.9
1946	1,193	357	4	832	209	29.9
1947	1,210	494	7	709	204	40.8
1948 [2]	1,310	520	5	785	203	39.7
Corn (grain equivalent):						
1939	2,169	33	....	2,136	62	1.5
1946	2,658	24	2	2,632	65	.9
1947	2,795	130	1	2,664	69	4.7
1948 [2]	2,343	27	1	2,315	58	1.2
Nonfood:	*Thousand bales* [4]	*Thousand bales* [4]	*Million pounds*	*Thousand bales* [4]	*Pounds*	
Cotton:						
1938-39 crop year	10,264	3,629	....	[5] 6,635	[5] 24.8	35.4
1945-46 crop year	12,796	4,205	....	[5] 8,591	[5] 29.8	32.9
1946-47 crop year	13,592	4,597	....	[5] 8,995	[5] 30.7	33.8
1947-48 crop year	11,337	3,228	....	[5] 8,109	[5] 27.2	28.5
	Million pounds	*Million pounds*		*Million pounds*		
Tobacco: [6]						
1938-39 crop year	1,520	[7] 540	....	[5] 980	[5] 7.5	35.5
1945-46 crop year	2,020	[7] 660	....	[5] 1,360	[5] 9.6	32.7
1946-47 crop year	2,100	[7] 730	....	[5] 1,370	[5] 9.5	34.8
1947-48 crop year	1,960	[7] 520	....	[5] 1,440	[5] 9.8	26.5

[1] Includes military civilian feeding programs in liberated and occupied areas, both from current procurement and from surplus stock.
[2] Preliminary estimates based on reports for first 8 months and forecasts for balance of year.
[3] Includes amounts used for animal feed, industrial raw materials, and seed, except in per capita column. If these amounts were excluded the percentages in the last column would be: 1939, 16.3; 1946, 42.2; 1947, 49.9; 1948, 51.0.
[4] Thousands of "running" bales, equal to about 490 pounds net per bale. Exports include cotton textiles and yarns, on a raw cotton equivalent.
[5] Estimated domestic distribution (i.e., U.S. civilian plus U.S. military).
[6] Domestically produced tobacco on a farm-sales weight equivalent basis, and imported tobacco on an unstemmed-weight basis.
[7] Includes unmanufactured tobacco and an estimated farm-sales weight equivalent of the tobacco used in the exports of manufactured tobacco products.

Source: Department of Commerce.

TABLE IV-9.

ERP Commodity Procurement Authorizations in United States and Offshore by Commodity Group

Cumulative, April 3—December 31, 1948

Commodity group	ERP procurement authorizations				Offshore authorizations as percent of total	
	Total authorizations	In United States	Offshore		Total offshore	Nonparticipating countries
			Total offshore	Nonparticipating countries		
	Millions of dollars					
GRAND TOTAL	3,707.0	2,299.2	1,407.8	1,163.8	38.0	31.4
Food and agricultural commodities	1,799.0	1,184.4	614.6	558.3	34.2	31.0
Industrial commodities	1,908.0	1,114.8	793.2	605.5	41.6	31.7
COMMODITY DETAIL						
Food, Feed and Fertilizer	1,384.3	784.0	600.3	547.5	43.4	39.6
Bread grains	725.7	469.3	256.4	256.4	35.3	35.3
Fats and oils	183.0	103.0	80.0	58.7	43.7	32.1
Sugar and related products	106.1	—	106.1	105.0	100.0	99.0
Coarse grains	89.2	81.8	7.4	7.4	8.3	8.3
Meat	75.2	11.3	63.9	62.1	85.0	82.6
Dairy products	70.3	60.0	10.3	10.0	14.7	14.2
Oilcake, meal and other feeds and fodder	36.0	15.5	20.5	18.1	56.9	50.3
Fertilizer	30.1	5.8	24.3	12.9	80.7	42.9
Fruits and vegetables	28.0	13.1	14.9	.4	53.2	1.4
Miscellaneous	40.7	24.3	16.4	16.3	40.3	40.0
Fuel	561.8	242.6	319.2	188.0	56.8	33.5
Petroleum and products	354.8	121.4	233.4	179.0	65.8	50.5
Coal and related fuels	207.0	121.2	85.8	9.0	41.4	4.3
Raw Materials & Semi-finished Products	1,038.8	617.0	421.8	381.6	40.6	36.7
Cotton	285.4	285.1	.3	.3	.1	.1
Non-ferrous metals and products	266.5	61.4	205.1	193.7	77.0	72.7
Copper	122.2	34.1	88.1	83.0	72.1	67.9
Aluminum	49.3	.4	48.9	48.9	99.2	99.2
Lead	38.7	2.0	36.7	36.3	94.8	93.8
Zinc	37.1	14.2	22.9	21.3	61.7	57.4
Other	19.0	10.7	8.3	4.1	43.7	21.6
Chemicals and related products	98.4	89.9	8.5	6.9	8.6	7.0
Iron and steel mill products	98.4	79.7	18.7	2.2	19.0	2.2
Fabricated basic textiles	53.7	20.5	33.2	31.0	61.8	57.7
Lumber and lumber manufactures	53.1	18.6	34.5	34.2	65.0	64.4
Pulp and Paper	49.4	11.6	37.8	33.6	76.5	68.0
Metallic ores and concentrates	47.0	4.4	42.6	40.6	90.6	86.4
Hides, skins, and leather	40.6	15.9	24.7	24.1	60.8	59.4
Non-metallic minerals	24.8	18.2	6.6	5.8	26.6	23.4
Miscellaneous agricultural commodities	21.5	11.8	9.7	9.3	45.1	43.2
Machinery and Vehicles	576.8	521.0	55.8	41.9	9.7	7.3
Machinery	398.9	380.5	18.4	13.2	4.6	3.3
Construction and mining equipment	61.0	60.0	1.0	.4	1.6	.7
Metalworking machinery, excluding machine tools	50.7	50.3	.4	.2	.8	.4
Machine tools	30.2	30.0	.2	.1	.7	.3
Electrical machinery and apparatus	34.9	30.5	4.4	1.0	12.6	2.9
Industrial machinery, n.e.c.	156.9	153.3	3.6	2.9	2.3	1.8
Agricultural machinery, excluding tractors	29.1	21.8	7.3	7.2	25.1	24.7
Tractors	36.1	34.5	1.6	1.5	4.4	4.2
Motor vehicles, parts, and accessories	77.8	76.3	1.5	1.4	1.9	1.8
Aircraft, parts, and accessories	33.5	33.0	.5	.1	1.5	.3
Other transportation equipment	66.7	31.2	35.5	27.3	53.2	40.9

Miscellaneous and Unclassified	145.2	134.6	10.6	4.7	7.3	3.2
Tobacco	106.4	102.3	4.1	1.1	3.9	1.0
Miscellaneous industrial commodities	37.4	31.1	6.3	3.6	16.8	9.3
Miscellaneous agricultural commodities	1.4	1.2	0.2	—	14.3	—

Note—Detail will not necessarily add to totals because of rounding.
Source: Economic Cooperation Administration.

TABLE IV-10.

Supply and Exports of Steel Mill Products 1937-39 and 1946 Quarterly Averages, 1947, and 1948 [1]

Period	Supply				Percent of total supply	
	Total	Available for domestic use	For export		Total exports	Exports to ERP countries
			Total	To ERP countries		
	Thousands of net tons					
Quarterly average:						
1937-39	7,886	7,285	601	[4]	7.6	[4]
1946	12,194	11,026	1,168	[4]	9.6	[4]
1947	15,764	14,144	1,620	473	10.3	3.0
1948 [3]	16,426	15,378	1,048	[4]	6.4	[4]
1947—First quarter	14,997	13,441	1,556	[4]	10.4	[4]
Second quarter	16,176	14,445	1,731	[4]	10.7	[4]
Third quarter	15,372	13,833	1,539	[4]	10.0	[4]
Fourth quarter	16,512	14,857	1,655	[4]	10.0	[4]
1948—First quarter	16,438	15,066	1,372	295 [2]	8.3	1.8
Second quarter	15,894	14,826	1,066		6.7	
Third quarter	16,070	15,155	915	217	5.7	1.4
Fourth quarter [3]	17,300	16,465	835	[4]	4.8	[4]

[1] Both supply and export figures exclude pig iron, iron and steel scrap, castings, and several fabricated items, which the Department of Commerce includes with iron and steel mill products in export tabulations.
[2] Quarterly average.
[3] Estimates based on incomplete data.
[4] Not available.
Note.—Detail will not necessarily add to totals because of rounding.
Source.—American Iron and Steel Institute and Department of Commerce.

TABLE IV-11.

Production and Exports of Copper, Lead, and Zinc
1939 and 1946 Quarterly Averages, 1947, and 1948

Commodity or period	Production: Total [1]	Production: Available for domestic use	Production: For export [2]: Total	Production: For export [2]: To ERP countries	Percent of total production: Total exports	Percent of total production: Exports to ERP countries
	Thousands of short tons					
Copper						
Quarterly average:						
1939	252.5	145.5	107.0	[5]	42.4	[5]
1946	219.8	195.5	24.3	[5]	11.1	[5]
1947	299.1	249.8	49.3[3]	33.6[3]	16.5[3]	11.2[3]
1948 [4]	311.1	255.8	55.3	33.7	17.8	10.8
1947 First quarter	290.3	250.9	39.4	[5]	13.6	[5]
Second quarter	316.6	273.5	43.1	[5]	13.6	[5]
Third quarter	274.9	220.4	54.5	[5]	19.8	[5]
Fourth quarter	314.6	254.5	60.1	[5]	19.1	[5]
1948 First quarter	306.8	253.2	53.6	[5]	17.5	[5]
Second quarter	313.8	249.3	64.5	[5]	20.6	[5]
Third quarter	312.8	265.0	47.8	[5]	15.3	[5]
Fourth quarter						
Lead						
Quarterly average:						
1939	121.0	102.0	19.0	[5]	15.7	[5]
1946	84.5	84.2	.3	[5]	.4	[5]
1947	135.3	133.4	1.9	0.5	1.4	0.4
1948 [2]	124.4	123.6	.8	.1	.6	.1
1947 First quarter	130.4	128.9	1.5	[5]	1.2	[5]
Second quarter	140.5	137.6	2.9	[5]	2.1	[5]
Third quarter	129.8	127.4	2.4	[5]	1.8	[5]
Fourth quarter	140.4	139.4	1.0	[5]	.7	[5]
1948 First quarter	134.4	133.7	.7	[5]	.5	[5]
Second quarter	138.6	137.7	.9	[5]	.6	[5]
Third quarter	100.3	99.6	.7	[5]	.7	[5]
Fourth quarter						
Zinc Slab						
Quarterly average:						
1939	126.8	124.0	2.8	[5]	2.2	[5]
1946	193.3	180.5	12.8	[5]	6.6	[5]
1947	212.0	182.0	30.0	20.9	14.2	9.9
1948 [4]	210.5	188.9	21.6	16.1	10.3	7.6
1947 First quarter	212.9	175.0	37.9	[5]	17.8	[5]
Second quarter	218.9	188.5	30.4	[5]	13.9	[5]
Third quarter	203.8	177.8	26.0	[5]	12.8	[5]
Fourth quarter	212.4	186.8	25.6	[5]	12.1	[5]
1948 First quarter	215.0	185.4	29.6	[5]	13.8	[5]
Second quarter	213.7	193.3	20.4	[5]	9.5	[5]
Third quarter	202.8	187.9	14.9	[5]	7.3	[5]
Fourth quarter						

[1] Production data represent primary metal from domestic and foreign ores. Data for 1939 and 1946 are not strictly comparable with those for 1947 and 1948. Data for 1939 and 1946 are compiled by the Bureau of Mines. Data for 1947 and 1948, from industry sources, do not cover all firms but include some metal refined from scrap. The Bureau of Mines quarterly average figure for copper production in 1947 is 294 thousand short tons, as compared to the Copper Institute figure of 299 thousand shown in the table. The Bureau of Mines quarterly average lead production figure for 1947 is 114 thousand short tons as compared to the American Bureau of Metal Statistics figure of 135 thousand shown in the table. For zinc slab the Bureau of Mines quarterly average production figure for 1947 is 216 thousand short tons, compared to the American Zinc Institute figure of 212 thousand shown in the table.

[2] Exports may include metal from secondary materials as well as from primary production.

[3] 1947 and 1948 exports include copper refined from British-owned brass scrap which was sent to this country for refining and re-export. Copper exports to the United Kingdom, which are part of the totals reported here, increased from 7,000 short-tons in 1946 to 71,000 in 1947 and 44,000 in Jan.-Sept. 1948, due largely to this re-export.

[4] Estimates based on incomplete data.

[5] Not available.

Source: Department of Commerce.

TABLE IV-12.

Supply and Exports of Crude Petroleum and Its Major Liquid Products, 1939 and 1946 Quarterly Averages, 1947, and 1948

Commodity or Period	Supply				Percent of total supply	
	Total	Available for domestic use	For export: Total	For export: To ERP countries	Total exports	Exports to ERP countries
	Millions of barrels					
Crude petroleum						
Quarterly average:						
1939	323.4	305.4	18.0	[3]	5.6	[3]
1946	456.4	445.8	10.6	[3]	2.3	[3]
1947	490.0	478.4	11.6	1.2	2.4	0.2
1948 [1]	536.0	526.0	10.0	.9	1.9	.2
1947 First quarter	458.8	450.5	8.3	.9	1.8	.2
Second quarter	483.1	470.6	12.5	1.3	2.6	.3
Third quarter	503.1	489.7	13.4	1.6	2.7	.3
Fourth quarter	515.1	503.0	12.1	1.0	2.3	.2
1948 First quarter	512.6	503.8	8.8	1.2	1.7	.2
Second quarter	532.2	521.9	10.3	.8	1.9	.2
Third quarter	540.4	529.4	11.0	.8	2.0	.1
Fourth quarter [1]	556.0	546.0	10.0	[3]	1.8	[3]
Major liquid petroleum products [2]						
Quarterly average:						
1939	282.5	257.1	25.4	[3]	9.0	[3]
1946	402.4	379.9	22.5	[3]	5.6	[3]
1947	431.8	409.1	22.7	10.9	5.3	2.5
1948	473.0	454.9	18.1	6.7	3.8	1.4
1947 First quarter	409.9	386.5	23.4	12.9	5.7	3.1
Second quarter	414.0	390.0	24.0	11.2	5.8	2.7
Third quarter	443.8	419.3	24.5	11.2	5.5	2.5
Fourth quarter	459.9	441.0	18.9	8.2	4.1	1.8
1948 First quarter	469.9	456.4	13.5	5.7	2.9	1.2
Second quarter	470.8	450.4	20.4	7.8	4.3	1.7
Third quarter	467.8	447.1	20.7	6.6	4.4	1.4
Fourth quarter [1]	484.0	466.2	17.8	[3]	3.7	[3]

[1] Estimate based on incomplete data.
[2] Includes motor fuels and gasoline, kerosene, gas oil and distillate, residual oil and lubricating oil.
[3] Not available.
Source: Department of the Interior and Department of Commerce.

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