EUROPEAN RECOVERY AND AMERICAN AID

A Report by

THE PRESIDENT'S COMMITTEE

on

FOREIGN AID

(Parts One and Two)

WASHINGTON, D.C.
November 1947

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THE SECRETARY OF COMMERCE
WASHINGTON 25

Dear Mr. President:

I have the honor to transmit the report of the non-partisan committee of distinguished citizens which you appointed last June 22 to advise you on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries and on the relation which should exist between such assistance and our domestic economy.

It was my privilege to observe and to participate in the free and thorough discussion by the members of the committee which resulted in their conclusions expressed in this report. While the committee had the benefit of materials prepared by both Government and private sources, it was understood that the function of the committee was to give you the benefit of a completely independent judgment after taking into consideration all points of view, and its conclusions were reached on that basis.

Respectfully,

W. A. Harriman

The President,

The White House.

November 7, 1947

THE PRESIDENT'S COMMITTEE ON FOREIGN AID

The members of the President's Committee on Foreign Aid, and their affiliations, are as follows:

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Chairman

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PART ONE: SUMMARY

SUMMARY

I. PRINCIPLES.

The President's Committee on Foreign Aid was asked to determine the limits within which the United States could safely and wisely extend aid to Western Europe. It has approached this assignment in a spirit of realism.

We believe that the future of Western Europe lies very much in its own hands. No amount of outside aid, however generous, can by itself restore to health the economies of the sixteen nations which met at Paris in July. Except in Western Germany, where the United States has direct governmental responsibility, the success of any aid program depends ultimately on hard work and straight thinking by the people and the governments of the European nations themselves. The sixteen nations, and Western Germany, comprise over 270,000,000 men and women. They possess great agricultural and industrial resources. Even in its present depressed state, the production of this area is vastly greater than any aid which this country can provide. Such aid must be viewed not as a means of supporting Europe, but as a spark which can fire the engine.

The Committee is also aware that the volume of aid required from the United States is of such proportions that it will place a substantial burden on the people of the United States. For all its resources, the United States is no limitless cornucopia. The population of this country represents something less than 7 percent of the population of the world. This country has heavy responsibilities at home as well as in Europe, in Asia, and in our own hemisphere. The aid which we give represents, to be sure, only a small fraction of our total production. But at the present time, there is no slack in the American economy and every shipment abroad of scarce goods—especially food which Europe must have—adds to the inflationary pressure at home.

The Committee regards as nonsense the idea which prevails to a considerable degree in this country and abroad, that we need to export our goods

and services as free gifts, to insure our own prosperity. On the contrary, we are convinced that the immediate economic danger to the United States is inflation, which means, among other things, a shortage of goods in relation to demand. We believe that our goal should be to bring about a condition where exports from this country are more nearly balanced by a return flow from abroad of services and materials essential to our own economy. We also believe that th. European nations desire to achieve such equilibrium in the interests of their self respect and prosperity. To make this equilibrium possible should be a major objective of any program of aid.

The interest of the United States in Europe, however, cannot be measured simply in economic terms. It is also strategic and political. We all know that we are faced in the world today with two conflicting ideologies. One is a system in which individual rights and liberties are maintained. The opposing system is one where iron discipline by the state ruthlessly stamps out individual liberties and obliterates all opposition.

Our position in the world has been based for at least a century on the existence in Europe of a number of strong states committed by tradition and inclination to the democratic concept. The formulation of the Paris report is the most recent demonstration that these nations desire to maintain this concept. But desire is not enough. The democratic system must provide the bare necessities of life now and quickly rekindle the hope that by hard work a higher standard of living is attainable. If these countries by democratic means do not attain an improvement in their affairs they may be driven to turn in the opposite direction. Therein lies the strength of the Communist tactic: it wins by default when misery and chaos are great enough. Therefore the countries of Western Europe must be restored to a position where they may retain full faith in the validity of their traditional approaches to world affairs and again exert their full influence and authority in international life.

II. POLICIES

The success of any program for aid which may be adopted will depend on the policies which this country and the European nations pursue. It should be made a condition of continued assistance under such a plan that the participating countries take all practicable steps to achieve the production and monetary goals which they have set for themselves in the Paris report. Failure to make genuine efforts to accomplish these results would call for cessation of further assistance.

However, aid from this country should not be conditioned on the methods used to reach these goals, so long as they are consistent with basic democratic principles. Continued adherence to such principles is an essential condition to continued aid but this condition should not require adherence to any form of economic organization or the abandonment of plans which call for a different form of economic organization if they have been adopted in and carried out in a free and democratic way. While this Committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign aid program should be used as a means of requiring other countries to adopt it. The imposition of any such conditions would constitute an unwarranted interference with the internal affairs of friendly nations.

The goals which the European governments have set for themselves and with which our Government may legitimately concern itself are conditioned by the nature of the European economic problem. The reasons for the inability of Western Europe to balance its accounts with the rest of the world at the present time are generally understood and are ably analyzed in the CEEC report. Western Europe is cut off from the food and supplies which flowed from Eastern Europe before the war. Foreign investments and shipping revenues have been lost. The costs of essential food and raw material imports have risen and are still rising. To overcome these disadvantages European production must expand well above prewar levels; yet in important industries, especially coal mining, and important

areas, especially Germany, it is lagging badly. It is the judgment of all competent observers that these troubles flow from an acute shortage of working capital and from the serious disintegration of organized economic life rather than from wartime physical destruction. Working capital in the form of fuel, raw materials, and food, is needed to sustain Europe until its production is built up. Some capital equipment is needed to further the rehabilitation of industry. An effective restoration of the purchasing power of money is essential to the resumption of ordered economic life.

The Paris report cannot be praised too highly for its emphasis on this point. It clearly states that European production can expand only as currencies and exchange rates are stabilized, as budgets are balanced, and as trade barriers are reduced. Post-war experience has abundantly proved that if money demand is vastly in excess of the supply of goods, the effects of "repressed inflation" are almost as bad as the disease itself. Germany is merely the most horrible example of an attempt to restore economic life without giving people a money they can trust. In this situation, the rapid spread of black markets undermines the respect for law. Normal monetary incentives cease to operate. The worker has no just reward for his labor and the farmer refuses to sell his produce. Resources are dissipated. Trade degenerates to barter. Controls tend to become self-perpetuating.

Achievement of monetary stability would allow a gradual restoration of normal incentives and a gradual return to a system where individuals, and enterprises, both public and private, can operate in markets. It would also allow the stabilization of exchange rates, which is all but impossible so long as inflation proceeds apace. It is obvious that this situation makes balance of payments problems that much more difficult. The Committee believes that in the near future some adjustment of exchange rates must be made. The prelude to that is internal monetary reform.

The Paris report rightly emphasizes the need for scaling down restrictions on trade between countries. But the reduction of tariffs is of little moment if exchange controls and other controls have to be maintained indefinitely. Whatever one's attitude toward planning and free enterprise may be, there is all but universal agreement that true economic recovery depends on releasing the energies of individuals and cutting down on time-consuming regulation of production and distribution.

III. NEEDS AND CAPACITIES

In emphasizing these points, the Committee is simply making explicit the principles that are imbedded in the Paris report. It does not wish to imply that confidence in currencies can be restored without increased production abroad combined with substantial injections of American aid. It believes that the need for holding inflation in check in this country and in Europe bears directly on the magnitude of the aid we can and should extend.

The Committee found little evidence that the goals set at Paris to restore standards of living were excessive in terms of basic necessities. Even if all the estimates submitted at Paris were to go through as planned, Europeans would not be eating as well in 1951 as they ate in 1938. If food were available, it would pay to meet these estimates in full in the interest of political stability. This is especially true in the case of Western Germany, where more food is essential to secure more coal production and the revival of an economy now obviously on dead center.

The Committee, however, is not convinced that the participating nations at Paris were wholly realistic in their plans for capital expansion. On the first point, it is obvious that if Europe is to be revived and made self-supporting--if our aid program is not to degenerate into just another relief program--the European nations will have to rehabilitate their capital plant. But it cannot be too strongly stated that the process of investment and capital

formation imposes a severe strain on the country undertaking it. It means the introduction of money income into the economy, with no comparable output of consumer goods to sop up this purchasing power. This process is highly inflationary. To the degree that capital goods are sent to Europe from the United States, it is true, the strain is transferred from European economies to our own. Nevertheless, the secondary effects of large capital programs should not be overlooked. At the present time, gross investment in the United States is running at about 17 percent of total national product at the height of a boom. Some of the European nations have attempted to exceed this rate. It seems unlikely that European nations can prudently afford to sustain capital formation on as large a scale as they have planned. What this means, in effect, is that housing programs and capital development may have to be slowed down until European recovery is much more advanced than at present.

In addition the program written at Paris may have to be modified by a shift in the amounts going to the separate countries. As this shift is made, we believe that the amount of aid allotted to Germany may have to be higher than was set at Paris. This Committee wishes to state emphatically that the overwhelming interest of the United States is to prevent the resurgence of an aggressive Germany. The fears of neighboring nations are thoroughly understandable. On the other hand, it is generally admitted that the revival of Ruhr coal output, along with the increase in British coal output, is the crux of the problem of getting Western Europe back on its feet. Apparent savings to the American tax payer, accomplished by spending too little money on Germany, have thus far been more than offset by the consequent deterioration of the general European economic situation.

The final determining factor in the size of a prudent program is the availability of commodities in this country. The Committee has canvassed such availability in detail. At the Paris Conference, it was concluded that the

Western Hemisphere simply did not have the food resources to supply all of the estimated needs. As against estimated need for about 30 million tons of grain, the Paris Conference conceded that 25 million tons was the maximum which could be obtained from the outside world with about 9 million tons coming from the United States. In 1947, the United States will probably export some 15 million tons of grain with about 9 million tons going to Europe. In view, however, of the poor American corn crop and the lack of fall rains, only a most favorable crop year in 1948 would make any such performance possible.

With a number of other commodities, the situation is only a little less stringent. Steel and the steel-making materials, especially scrap, are in particularly short supply in the United States. Because it is a basic industrial material, the effects of this shortage are pervasive. Coal exports at a high rate are possible, though they are imposing a strain on the United States transportation system and there may be a few shortages in the coming winter. The margin between supply and demand of petroleum products is very narrow in this country. The European countries do not expect to import this commodity from the United States in volume, but the shortage, like that of steel products, is world-wide. There is little likelihood that these requirements set forth at Paris can be met.

The situation is much the same in regard to most of the items of machinery and equipment the European nations need. In the middle of an agricultural boom, the demand of American farmers for farm machinery is well beyond the capacity of the industry. As to mining machinery, coal output is at a high rate and American mine operators are buying as much machinery as they can obtain. Heavy electrical equipment of all kinds is perhaps the tightest industrial item of all. The story is much the same for certain of the basic raw materials.

These remarks do not imply that the United States can do little toward the rehabilitation of Europe. European governments and private firms have placed large orders in the United States for industrial equipment. A voluntary food conservation program has been initiated to make food available for export. In spite of shortages here, manufacturers of automobiles and farm machinery are voluntarily maintaining exports. If funds were available to finance European purchases and if European requirements were known in detail, exports could at least be maintained, and in many cases stepped up. In overall terms, a foreign aid program would not even require the maintenance of present rates of exports. The conclusion that does emerge from the examination of particular markets for particular commodities is that supply will be a limiting factor in many cases and that many European requirements cannot be met in full.

IV. THE MAGNITUDE OF AMERICAN AID

On the basis of revised estimates of European imports and exports, the Committee calculates that the cost of the European aid program to the Government of the United States would be about $5.75 billions for the first year, and, in round numbers, between $12 and $17 billions for the whole program here suggested.

These figures are not comparable to those contained in the Paris report. The latter are estimates of the deficit the participating European countries would incur in their trade with the Western Hemisphere. They measure the margin by which the European countries expect their payments in dollars for goods and services imported from the Western Hemisphere to exceed their receipts in dollars.

The Paris estimates of imports have had to be revised downward, mainly on the grounds of unavailability of goods. To the extent of this revision the estimated cost of the program was also reduced. At the same time it was necessary, on grounds of realism, to revise downward the European estimates of exports

and to modify the figures in a number of other ways which increase the cost. The result was an estimate by the Committee that the balance of payments deficit would be $1 billion to $1.5 billions lower in the first year and possible as much as $5 billions lower for the whole plan than that contained in the Paris program.

The Committee's estimate of the cost to the United States Government is a smaller figure than the foreign trade deficit. First, a deduction must be made for the part of the program that can be financed through the International Bank. Second, there may be private financing. Third, a large part of the European deficit with the American Continent is with countries other than the United States. In its own interest, the United States will probably have to supply funds to cover a part of this deficit but we should not have to finance it in full. When allowance is made for these deductions, the resulting figures are those given above for the cost to the United States Treasury.

It is helpful to compare the figures for the cost to the United States Government with what the United States has been doing for Europe in the past. Before the run on sterling in July the annual rate of withdrawals on the British loan was about $2.6 billions. In addition, in the first half of 1947, the rate of withdrawal on other European aid programs—relief, UNRRA and special grants—was about $2 billions. In 1947 the United States assumed only half of the cost of German occupation, but in 1948 it seems likely that it will have to assume the whole burden, amounting to about $1 billion.

When all these factors are taken into account, the program of aid proposed for 1948 proves to be a moderate increase on what the United States has in the recent past been spending in Europe and what will probably have to be expended in Germany in any case. In addition the program calls for increased lending operations by the International Bank.

Looking to the years beyond calendar 1948, the Committee emphasizes that any estimates are altogether speculative. The American people have an understandable interest in trying to ascertain the drain on their resources in the future. But it is totally impossible, and indeed unwise, to attempt to calculate this with accuracy. The Paris conference suggested that the total European foreign exchange deficit for the four-year period 1948-1951 would be about $22 billions. The Committee's estimates range from $17 to $23 billions. When deductions are made for various types of financing, the range of possible appropriations would be about $12 to $17 billions. But the Committee cannot emphasize too strongly that any aid extended to Europe must be on a year-to-year basis. It must be subject to constant, vigilant review of the Congress.

V. FINANCE AND ADMINISTRATION

Even to carry out a prudent program in 1948 entails the execution of certain fundamental policies on the part of the United States Government and the most careful administration. The Committee believes that any aid to Europe offered by the United States should be financed out of taxes, not out of borrowing. The maintenance of a surplus in the United States Treasury is a necessity in this inflationary period.

A foreign aid program will require means to make available goods that are in short supply. Voluntary measures should be relied upon wherever possible. If and when they are not, the Government will probably require authority to set priorities in order to insure the availability for export of limited amounts of the items most critically needed. It might also have to issue limited orders to control consumption of critical materials such as those still in effect for tin. Especially in the field of food it might be necessary to use the device of requiring that limited quantities be set aside for export.

It must be emphasized that these suggestions apply only to the foreign aid program and not to the broad problem of inflation. The Committee is

convinced that inflation is a serious deterrent to the stability of the American economy, but any consideration of a program to control inflation would have been beyond its competence and its terms of reference.

The Committee is convinced that the administration of the program is of primary importance because it will be necessary, for reasons given above, to adjust the program as it goes forward. To insure unity of administration, it is recommended that a new independent agency be set up in the Federal Government. The head of this agency should be appointed by the President and confirmed by the Senate. A board of directors should be appointed, representing the Departments of Government concerned with the program, including the Secretary of State and such other persons as the Congress may see fit to add.

The head of the new organization should be Chairman of this Board which should have power only to establish and adjust general policies within the framework of Congressional action.

The operating decisions should be made by the head of the new organization, but it will be necessary for him to work out effective means for cooperation with the State Department concerning these major decisions which have an important bearing on the foreign policy of the United States.

The closest possible relations should be maintained between the new organization and the Congress. This is a question to be solved by the Congress, but we suggest it might be done by a special joint committee created for this purpose, as in the case of the Atomic Energy Commission.

The new organization must have a chief representative in Europe, reporting directly to the head of that organization, and responsible to him, to deal with the continuing committee set up by the participating countries, and also to coordinate the activities of the various local representatives of the organization in those countries. In addition, representatives will be needed in the different countries. They will have to report to and be under the

direct control of the head of the new organization. But they should keep the Ambassadors in the respective countries informed of their communications. In all cases where there is necessity for taking up important matters with governments, it should be done by the Ambassador to the end that there will be only one diplomatic representative of the United States in these countries. Due to the need for flexibility in the program, the Committee recommends that the corporate form of organization be given careful consideration.

VI. SUMMARY

The basic conclusions of the President's Committee on Foreign Aid may be summarized as follows:

1. The hope of Western Europe depends primarily on the industry and straight thinking of its own people.

2. The United States has a vital interest—humanitarian, economic, strategic, and political—in helping the participating countries to achieve economic recovery.

3. The aid which the United States gives will impose definite sacrifice on this country.

4. The magnitude of Western Europe's deficit with the American Continent in 1948 will be of the order of $7 billions, but when all possibilities of financing are taken into consideration, the approximate need for appropriations past and future to cover the calendar year of 1948 may be on the order of $5.75 billions.

5. The extension of such aid, now or in the future, calls for anti-inflationary fiscal policies on the part of this country, and a new agency to administer the aid extended.

As a final word, both on the magnitude of the program recommended and on the policies outlined, it is well to bear in mind that success depends on giving way neither to over-optimism or to undue pessimism. It is one thing to

propose a program, it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.

By the same token, however, it is essential to maintain perspective. The years following World War I were years of intense dislocation and dissolution both at home and abroad. Yet, by 1924, Europe, which seemed totally disorganized in 1919, was well on its way to recovery. Even more in point would seem to be the wartime experience of this nation and other democracies. In 1940, it seemed inevitable that a large part of what we call Western civilization was irreparably lost. In late 1941, following Pearl Harbor, the fortunes of this nation were at an all-time ebb. Yet four years later, complete victory had been gained, American arms stood triumphant in the East and in the West, and it was obvious that the United States had entered into a new period of power, prestige, and responsibility. The following years have contained many disappointments. Wartime alliances have melted away. Yet it is safe to say that at no time in history has there been more need for Western Europe and the United States to stand firmly together. And who will say that, if we apply to the making of the peace the same spirit which triumphed in war, we may not see an equally dramatic vindication of the ideals and principles of free men everywhere?

PART TWO: GENERAL REPORT

I. FOREWORD:

THE NATURE AND ORGANIZATION OF THE REPORT

A. The Basic Questions

In seeking to determine the limits within which the United States may safely and wisely plan to extend economic aid to Europe, and the relation between such a program and our domestic economy, the President's Committee on Foreign Aid has had to ask the following questions:

1. Why should the United States furnish aid?
2. Why do the European nations need help?
3. How much money and what kinds of goods can we safely and wisely furnish?
4. How can such a program best be financed and administered?
5. What will be the impact of such a program on our economy?

In the subsequent sections of this Report there are presented certain answers to these questions. The Committee believes that these answers are as accurate, and have been reached with as much deliberation as time permitted. Upon them the recommendations of the Committee are based.

B. The Character of the Answers.

Posing these few questions is simple enough. Answering them for a variety of reasons is much more difficult. In some cases the answers must evolve out of the analysis of large bodies of complex factual and statistical material which tend to obstruct the development of plain conclusions. In other cases, many of the data necessary for framing complete answers are inconsistent beyond the hope of immediate clarification, and some do not exist at all. A further and more important limitation is imposed by the fact that the program of aid is conceived as running over a

period of four years, from 1948 through 1951. Judgments of economic conditions are obviously less accurate for the farther than for the nearer years.

This is not to say that dependable answers to the broad basic questions are now impossible. It is clear from the nature of the questions that the reasons why the United States should aid Europe, for example, or the aims of such a program of aid, can be thought through as well now as later, and must in fact be determined before the validity of any specific proposal is examined in detail. The questions of the amount and kind of aid needed, and of the ability of the United States to furnish it are of a different sort, the answers to which are gravely affected by the imperfections of available data, not only those on European requirements set forth by the Committee on European Economic Cooperation, but also those on the availability of the needed goods in the United States.

Even if the data were very much more complete and consistent, decisions of any great degree of particularity would be impossible. Many factors which cannot be anticipated with accuracy affect both the European and the American aspects of the problem; as a single example, the production of food, depending greatly on weather, cannot be precisely estimated in advance. The conclusions respecting questions of this sort which have been made by the Committee are therefore limited, first, to a number of broad recommendations as to policies and as to various features of the commodity and country programs, and second, to indications of the directions in which the admittedly rough estimates of European dollar deficits presented in the CEEC report should be modified.

Calculations made in the course of reaching conclusions of this sort are not intended to serve as the basis of any decision at this time as

to the magnitude of a four-year European aid program. They are mere planning estimates of the probable cost (in terms of a European dollar deficit) of achieving certain results. It is useful to have such estimates available when decisions, which do not have to be made now on such matters as organization and methods of financing, are being made. But they are useful only for this purpose.

It would be most unwise to attempt to determine in advance either the magnitude of the whole program or the exact amount of every commodity or product which Europe may need or the United States may be able to send. If a program of European economic aid running through 1951 is in fact approved by the Congress and undertaken by the United States, countless circumstances will arise during the life of the program which will and should affect its size, nature, and direction. It is of the utmost importance, if the program's objectives are to be achieved, that the persons charged by the Congress with its execution should, subject to Congressional review and with the cooperation of the relevant officers in the Executive Branch, be able to revise and amend the program in the light of changing conditions. It is on continuing sound administration that the success of the program will largely depend. Believing this, the Committee has not hesitated to reach and to set forth in this report recommendations as to the validity and nature of the plan which are addressed rather to principles than to the elaboration of detailed blueprints for each of its aspects. This is equally true concerning the analysis of the program's impact on the American economy.

With respect to the financing and administration of any plan, however, the major judgments do not have to wait on additional detailed data or the working out over time of factors presently obscure. As has

been implied above, the Committee attaches very great importance to the decisions which are made concerning finance and administration. The growing realization by the Committee of the limited extent to which the specific size in money or the detailed nature in commodities can or should now be fixed, has greatly emphasized the relative importance of administrative and financing decisions at this stage. The Committee believes that, as a public rather than a governmental body, its recommendations should be concerned rather with the principles which underlie the questions of financing and administration than with detailed machinery. The sections dealing with these questions have been framed accordingly.

It must in conclusion be repeated that the Committee's decision not to formulate a program of European aid elaborated in every particular is conscious. This does not reflect any hesitation on the part of the Committee, but rather its sense of urgency as to the need for an immediate decision. Essentially the choice of the United States to aid or to refrain from aiding Europe should be made on the basis of such general principles as are laid out in the five basic questions which are posed above. The Committee presents its answers with the conviction that it is upon these questions that a plan for American economic aid to Europe must stand or fall.

II. THE INTEREST OF THE UNITED STATES IN EUROPEAN RECOVERY

The people of the United States face a momentous decision. It is one that should be made only after the Administration has laid before them and their Congress all the available facts bearing on the critical world situation which it has so fully and frankly given to this Committee. The Committee has faith in the sound judgment of the people and of the Congress when they have learned the whole truth.

The question confronting the country is this: Does the United States have a vital interest in European recovery? The elements of this interest are three: Humanitarian, economic, political. They must be weighed in order to decide whether their sum is an American interest which is in fact vital.

The humanitarian appeal is presented by the spectacle of millions of Europeans for whom this winter will be one of cold and hunger. There is deeply rooted in the hearts of most Americans a fundamental human kindness, a will and a wish to give whatever is possible to those who are in dire need of help. Huge amounts of money and tremendous quantities of commodities, totaling many billions of dollars, have been made available by the people of the United States since V-E Day to nations suffering from the destruction and dislocations of the most terrible war in history. We, who as a nation are enjoying comparative luxury, cannot in good conscience do otherwise. To withhold our aid would be to violate every moral precept associated with our free government and free institutions.

This moral obligation does not mean blind, unlimited assistance to all who ask for it; nor does it mean that need must be the sole criterion. Aid in any form, public or private, always involves many practical considerations and limitations which temper its kind and quantity.

There is no evidence that Americans have lost their willingness to help the unfortunate. The Committee is completely confident that a demonstrated need

by the European countries for the necessities of life such as food and coal will elicit a generous response in the hearts of our people. But there is a growing realization that even a country with the resources and productive capacity which we enjoy cannot continue to pour out its substance indefinitely without crippling its ability to keep its economic balance and to maintain its national security. Any plan of European aid that we undertake should therefore be a plan for European recovery, with the major objective of restoring that area to a self-supporting position and of bringing to an end the need for continued and indefinite assistance.

Such a comprehensive plan to aid Europe will be expensive. It will involve sacrifices but it may also be cheaper in the long run. The illusion that it would be thrifty to do nothing would be shattered if, by such a policy, the future existence or development of our economic and political institutions should be seriously jeopardized.

Our economic self interest is closely related to the fate of Europe. American trade with Europe has always been a factor of paramount importance to the American economy. A progressive decline in the producing and buying power of 270,000,000 people in Western and Central Europe would have a powerful impact upon American prosperity. Moreover, prosperous conditions in Europe are essential to the maintenance of American trade in other parts of the world. For example, South Africa, Australia, New Zealand, Canada, and the non-tropical countries of Latin America obtain, by means of export surpluses to Europe, the funds with which to pay for their import surpluses from the United States. Thus a disintegration of the European economy would curtail the power of these countries to buy United States goods.

The deterioration of the European economy for lack of means to obtain essential imports would force European countries to resort to trade by government monopoly—not only for economic but for political ends. The United States would almost inevitably have to follow suit. The resulting system of state controls, at

first relating to foreign trade, would soon have to be extended into the domestic economy to an extent that would endanger the survival of the American system of free enterprise.

These formulations of the United States' humanitarian and economic interests in European recovery sufficiently indicate their importance. But it is United States interest of a third kind which overshadows the others, and with which any plan for the economic recovery of Western Europe is most directly concerned.

This third and most important interest, though it may for simplicity be called political, is in fact very much broader. It stems from the realization that a European recovery program is an investment in the continued survival of a world economically stabilized and peacefully conducted, in which governments based on fundamental democratic principles can prosper, in which right, not might, prevails, and in which religious freedom, economic opportunity, and individual liberties are maintained and respected.

To state this aim recognizes that we are faced in the world today with two conflicting ideologies. The basic characteristics of each are well known. One is a system in which individual rights and liberties are emphasized, where they are protected by basic constitutional guarantees, where the state is the servant of the people. The opposing system is one where iron discipline by the state ruthlessly stamps out individual liberties and obliterates all opposition.

The first regards the strength of international relationships as resting on the maximum of free association—economically, personally and culturally—between individuals in different countries; the foreigner, as well as the native, has a right to his private life and to private interests; and the exchange of such private interests across international borders is even welcomed as the surest guarantee of permanently peaceful and mature state relationships.

The opposing concept rests on the assumption that international life must be dominated by ideologies; that where ideologies differ, conflict is inevitable; and that so long as ideological uniformity has not been obtained, struggle must remain the keynote of international life. In these circumstances, it is clear that peace is only a military truce; and the national state continues to conduct itself as a fortress besieged by mortal enemies. The freedom of the individual in international life is largely lost and the structure of international dealings derives its solidity only from the iron discipline of the state and the determination of its leaders.

Should this country ever be forced by circumstance to turn from the first of these concepts of international life to the second, it would no longer be able to conduct domestic affairs according to the principles of individual liberty and tolerance which are traditional to it. The continuance of the American way of life and of thought, therefore, requires that the peoples of the world understand the soundness of the first of these philosophies of international life.

The pattern of the United States position in the world has been predicated for at least a century on the existence in Europe of a number of strong states committed by tradition and inclination to this outlook on international affairs, and on the exertion by these states of a powerful stabilizing influence in world society. Happily they have not been the only nations which have shared these feelings and aspirations; but they have certainly represented the greatest single concentration of state power associated with this outlook, and their role in world affairs has been so great as to represent one of the foundation stones of United States security.

But these countries of Western Europe cannot continue unaided to play this role. Their peoples are sorely dissatisfied with their present plight. If by democratic means they do not soon obtain an improvement in their affairs, they may be driven to turn in the opposite direction. Therein lies the strength of the

Communist tactic: It wins by default when misery and chaos are great enough. That is why any program for the democratic rehabilitation of Western Europe must overcome not only the complex economic problems resulting from the ravages of war, but also the deliberate sabotage by the Communists who see in the continuance of misery and chaos their best chance for an ultimate victory.

Open ideological war has been declared already by the totalitarian nations and their satellites upon all other nations and peoples believing in individual liberty. It has been called a "cold war". The first major battle in the cold war is being fought now in Western Europe. It is cold only in the sense that guns are not smoking and bombs and guided missiles are not exploding. In every other respect the ideological war of the Communists is as ruthless and as determined a drive to achieve world domination as a hot war.

The military results of World War II have already put a large segment of Europe under the domination of the totalitarians. The cold war is now being fought for those portions of Europe and of Asia which have so far resisted this onslaught. In this struggle the police states have effective allies in every country beyond the iron curtain. Their allies are the indigenous Communist parties which have loyalty, not to the nations in which they live, but to the Kremlin. These well-disciplined forces have been stripped for action by the open acknowledgment that the Comintern is revived.

It is an historical fact that the sixteen Western European nations which participated in formulating the Paris report are nations which, like our own, have fostered and developed the concept that individual liberty and fundamental human rights are essential to domestic society and hold out the hope for peaceful world relationships. They are among the nations which have joined in a genuine effort to make the ideals enumerated in the United Nations charter a reality. Economic recovery in Western Europe is an objective consistent with and essential to the attainment of these ideals.

The quick response of the Western European nations to Secretary Marshall's suggestion is an indication that they regard this economic recovery necessary to the achievement of these ideals. It is likewise the most recent demonstration that by tradition and inclination Western Europe desires to maintain the democratic concepts of government. But tradition and inclination are not enough. We know that the democratic system must provide the basic necessities of life now, and that it must quickly rekindle the hope that by hard work a higher standard of living is attainable.

More than 200 million people live in the nations under consideration for aid from this country; among them are many of the world's most energetic and gifted peoples. Whatever we do, their own qualities will some day regain for them the measure of influence which they have always been able to exert in the modern world. But until that is done there can be no real balance in world affairs, and no real peace. And unless it is done soon we cannot be sure that their faith in the sort of international life we believe in will be fully maintained, and that their strength, once recovered, will be exerted for the achievement of what has been a common goal.

Therefore, the countries of Western Europe must be restored as rapidly as possible to a position in which they may retain full faith in the validity of their traditional approaches to world affairs, so that they can again exert their full influence and authority in international life.

Thus broadly the United States' political interest may be defined. An objective analysis of the situation points conclusively to the need for courageous constructive action to aid Western Europe, both for its sake and for our own enlightened self-interest.

We cannot have complete assurance that all objectives can be achieved with a planned recovery program. There are risks and pitfalls in whatever course of action we may take. But we must face the reality that dire consequences are

almost certain if we fail to move decisively at this critical juncture in world affairs. The present situation contains far-reaching implications which indicate that a do-nothing policy cannot be considered as an alternative.

If the countries of Middle-western and Mediterranean Europe sink under the burden of despair and become Communist, Scandinavia will fall into the same camp. The strategically and economically vital North African and Middle-eastern areas will follow. This transfer of Western Europe, the second greatest industrial area in the world, and of the essential regions which must inevitably follow such a lead, would radically change the American position. If it should prove that a weakened United Kingdom could not resist so powerful a current, then the shift would be cataclysmic.

The domestic consequences are such as no American could easily tolerate: The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in our relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of our economic and political life, perhaps extending even to our very form of government.

In such prodigious terms is the interest of the United States in European recovery defined. The Committee is convinced that a sound program for Western European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

III. EUROPEAN RECOVERY

A. The Nature of the Problem.

The present economic position of Western Europe, which defines the European recovery problem and must be the starting point of any recovery program, is ably analyzed in the report of the CEEC. The salient fact there presented is that Western Europe probably cannot survive the next four years and certainly cannot recover unless large dollar resources are made available to European governments in the form of public loans or grants, in addition to any such funds as may be secured through the private capital market. These funds are needed, of course, to finance imports into Western Europe from the Western Hemisphere.

In explaining this situation, it is well to begin by distinguishing those features of it that are abnormal from those that are normal. It cannot be repeated too often or emphasized too strongly that there is nothing abnormal about Western Europe's dependence upon heavy imports of food, feed, industrial raw materials and even certain sorts of industrial products. This area is the second greatest center of industrial production in the world. It lives in large measure by processing. Europe's own natural resources support its steel and chemical industries and provide most of its fuel but both European industry and European agriculture have long depended on imported resources and the population of Europe has long depended on imported food. Clearly, Europe cannot recover without heavy imports. What is abnormal about the situation is its current inability to pay for more than about half of what it needs.

The circumstances that explain this abnormal situation can be summarized as follows: (1) Whereas over-all production in some European countries has shown remarkable recovery, it is still true that Europe's total production, especially when Germany is taken into account, is well below prewar levels with the critical item of coal a prime example. This retardation of production affects both her ability to export and her import needs. (2) Western Europe's import demands,

especially against the American Continent are abnormally large because she has been deprived of her Eastern "bread-basket" for food and because of wartime dislocation in the Orient. Western Europe's import demands are further enlarged because of its need for capital rehabilitation and development. (3) Europe has lost (in part temporarily but in part permanently) major sources of foreign exchange in the form of payments for services and return on foreign investments. (4) There has been a major shift in price relationships between industry and agriculture in favor of the latter. (5) There has been wholesale disruption of the entire framework of monetary exchange both within European countries and between those countries and the outside world.

For all of these reasons Western Europe needs both working and long term capital and the restoration of the kind of system which will allow individual men and women, and individual firms to get ahead with producing the right kind of goods in the right amounts. Neither of these needs can be disregarded. However, we wish to emphasize that the persistence of Europe's difficulties is much less due to physical destruction incurred during the war than to the disorganization of its economic life. The disorganization operates in a variety of ways to impair or destroy human incentives. The most pervading form that it takes is the loss of value of most Western European currencies. This has occurred, in part, through the medium of price inflation; in part, as a result of the non-availability of goods and of rationing. In Western Germany, the most disorganized area within Western Europe, and in the United Kingdom, where production is above prewar and where the administrative machinery of government operates with unimpaired effectiveness, price inflation is less important than the fact that consumption is determined by the availability of goods and by the size of rations rather than by money income. The incentive to earn a larger money income is gravely weakened by the impossibility of using it to buy goods. In a number of other continental countries where the black market is active, incentives are affected in other ways.

Mistrust of both the internal and the external value of currency makes individuals reluctant to hold it. The "free" black market draws resources away from those sectors of the economy where price controls are effective. The classic example is the extensive feeding of grain to livestock in countries where there is an acute shortage of bread grain for the urban populations. Controls, scarcities, and suspicion of the internal values of currencies have operated together to interfere gravely with the processes of internal exchange of goods and services. The agricultural producer can most easily and surely increase his own real income by eating more of the food he grows; as a result / available supplies of food are badly distributed between town and country. The industrial worker can surely and easily increase his real income only by enjoying greater leisure, a circumstance which contributes most to the shortage of manpower and to the low productivity of labor in Western Europe today.

The weakening of incentives and the disruption of trade are closely related, however, to pervading physical scarcities referred to above as shortage of working capital. While it is true that monetary reform is a prime need of many European countries such reform cannot be effected only by decreasing the supply of money. Money must become worth something in terms of available goods. Western Europe abounds with examples of economic vicious circles. If more food could be gotten into the Rhur more coal would be produced. If more coal could be supplied to nitrate plants, the additional fertilizer would augment the European food supply, which would greatly increase the productivity of labor in industry and coal mining. More coal would likewise make more steel available which could be used in the production of mining equipment. That so many of Europe's problems take this form is evidence of the fact that stocks of goods are appallingly low. There are no physical reserves which can be used to initiate at one point an increase of production which would ramify widely. Hence the need for "injection" of food and other commodities from the outside if the European economies are to continue to function and if recovery is to gain momentum.

An "injection" of immediately required necessities, however, is not enough. The objective of the European nations, an objective backed by the United States, is to become self-sustaining. If this is to be the case not only must working capital be replenished, but there must be an effort to expand and renovate the European industrial and agricultural plant. This calls for capital equipment. Part of it is needed to make good arrears of depreciation and obsolescence. The war was a period of rapid capital consumption; plant and equipment were worked hard without adequate maintenance or replacement. Another part of it is needed to replace German facilities. Still another part of it is to permit an expansion of output above the highest levels achieved before the war. It seems likely that the European nations may have over-emphasized their needs in this direction, as well as their ability to absorb capital goods. But the problem is nevertheless there, especially if we consider the longer-term future.

Although the short run problem reduces to one of producing more goods for export (without too inflationary an effect upon domestic economies) it must not be lost sight of that a long run problem of quite a different character will emerge as rapidly as the short run problem is solved. At the present time, there is a world-wide scarcity of goods; world markets will absorb whatever Europe can export. Inevitably, however, as world recovery progresses, European nations will face competition in marketing their exports and they may encounter difficulties in using the proceeds of the sale of exports to the Eastern Hemisphere to pay for imports from the United States and the rest of the Western Hemisphere. American trade policy and American willingness to accept imports will, to an increasing degree, determine Europe's position. If Europe is to be able to pay its own way, we must find a means of allowing the rest of the world to balance its accounts with us.

B. The Elements of the Paris Program.

In relation to the long run problem referred to above the Paris program is essentially a "short-term" program dealing with the years 1948 through 1951. Any difficulty in finding markets is properly assumed away. The essential task set at Paris was to show how, given adequate aid from the United States, Western Europe could get on its feet in the next four years. Some harm has been done in describing the Paris document as a fixed "plan." It is not a fixed plan, first, because it is after all no more than a response to an American request for information and depends very largely on American decision, and secondly because no Western European government has such control over its economy that it can be made to perform like a marionette. In Europe, no less than in the United States, government authorities can propose; but only the people dispose. What the Paris report contains is first, a statement, partly explicit but partly only implicit, of the economic ends to be attained; second, a number of suggestions and statements of intent concerning the policies to be adopted as means to the attainment of these ends; and third, conditioning both the ends and the means, a guess as to Europe's capabilities, that is, what is physically possible.

The essence of the program is a large programmed increase of industrial and agricultural production above present levels and, in most cases, prewar levels Although it is impossible to measure the goals for 1951 in terms of an over-all index of production, comparisons which may be made for a number of specific commodities are summarized in the following table.

It is apparent that the European governments believe industrial production can be pushed well beyond prewar levels but that agricultural and extractive industries, which depend more directly on basic resources, can only with the greatest efforts achieve their prewar output. The recognition by the European governments of the limitations on coal and food production determine, in important respects, their plans and expectations with regard to the direction of production

BALANCE OF PAYMENTS SUMMARY FOR THE SIXTEEN PARTICIPATING COUNTRIES AND WESTERN GERMANY

(In millions of dollars)

	1948		
	USA	Other America	Other non-Participating Areas
A. Imports of Commodities Covered by Paris Technical Committees			
Food, feeding stuffs and fertilizer	1,452	1,856	1,937
Coal and other solid fuels	342	—	255
Petroleum products	612a/	a/	b/
Iron and steel products	370	—	43
Timber	96	170	253
Equipment:			
Agricultural machinery	370	—	n.a.
Mining machinery	80	—	"
Electrical equipment	150	—	"
Petroleum equipment	168	—	"
Steel plants	100	—	"
Inland transport equipment	203	—	"
Timber equipment	10	—	"
B. Other Imports			
Machinery, n.e.s	287c/	—	n.a.
Unspecified	1,787	1,212	2,211
C. Total Imports	-5,927	-3,238	-4,699
D. Adjustment for terms of trade d/	0	0	0
E. Exports	+848	+1,311	+4,297
F. Net Position on Invisible Account	-558	-16	+384
G. Balance of Payments (C + D + E + F)	-5,637	-1,943	-18
H. Net Position of Dependent Territories	-455		-219
I. Credits assumed available from International Bank or other sources	+920		
J. Uncovered Deficit	7,352		

a/ Estimate of dollar cost of petroleum imports
b/ Imports assumed to be covered by currencies of participating countries
c/ Partial estimate
d/ The Balance of Payments Committee of the Paris conference has assumed that the terms of trade for the participating countries will shift during the period, 1948-1951. It has been assumed that, as compared with the price levels of July 1, 1947, prices of European imports will be reduced by 7½ percent in 1949, by 10 percent in 1950, and by 12½ percent in 1951 while the prices of European exports will not fall.

BALANCE OF PAYMENTS SUMMARY FOR THE SIXTEEN PARTICIPATING COUNTRIES AND WESTERN GERMANY
(Continued)

(In millions of dollars)

	Total - 1948-1951		
	USA	Other America	Other non-Participating Areas
A. Imports of Commodities Covered by Paris Technical Committees			
Food, feeding stuffs and fertilizer..	5,910	7,807	9,732
Coal and other solid fuels.....	666	—	1.515
Petroleum products.....	2,187	a/	b/
Iron and steel products.....	1,292	—	146
Timber.....	351	621	1,417
Equipment:			
Agricultural machinery.....	1,188	—	n.s.
Mining machinery.....	220	—	"
Electrical equipment.....	500	—	"
Petroleum equipment.....	555	—	"
Steel plants.....	400	—	"
Inland transport equipment.....	490	—	"
Timber equipment.....	32	—	"
B. Other Imports			
Machinery, n.e.s.....	1,148		n.s.
Unspecified.....	6,086	5,619	9,383
C. Total Imports.....	-21,025	-14,047	-22,198
D. Adjustment for terms of trade d/.....	£1,486	£1,080	£1,768
E. Exports.....	£4,570	£7,626	£22,057
F. Net Position on Invisible Account.....	-1,583	£9	£2,059
G. Balance of Payments (C £ D £ E £ F).....	-16,452	-5,332	£3,686
H. Net Position of Dependent Territories...	-659		-882
I. Credits assumed available from International Bank or other sources.....		£3,130	
J. Uncovered Deficit.....		16,505	

a/ Estimate of dollar cost of petroleum imports
b/ Imports assumed to be covered by currencies of participating countries
c/ Partial estimate
d/ The Balance of Payments Committee of the Paris conference has assumed that the terms of trade for the participating countries will shift during the period, 1948-1951. It has been assumed that, as compared with the price levels of July 1, 1947, prices of European imports will be reduced by 7 1/2 percent in 1949, by 10 percent in 1950, and by 12 1/2 percent in 1951 while the prices of European exports will not fall.

and their need for imports. In order to sustain an over-all increase in basic power requirements, the program calls for a heavy increase in petroleum consumption and a more moderate one in hydro-electric power generation. In the field o. agriculture, the countries are expected to end up with dietary levels lower than prewar, especially in meat and in fats and oils, with relatively greater concentration than prewar in the production of bread grains (or less than at present) and with grain imports almost as large as at present.

Related to the desired and expected expansion of production is a heavy program of capital development. During the period of four years the plan propos that $4 to $5 billions be spent on new steel mill; $3.5 billions for mining mach ery and equipment; well over $1 billion for petroleum refinery equipment and ele tric plant expansion, totaling at least $5 billions. Apparently $3 to $4 billion of agricultural machinery are estimated to be required for domestic use, as well as a large quantity of rolling stock of all types. Finally, a heavy shipbuildin, program is now in progress which will involve capital expenditures of some $3 billions during the period of the program. These figures make no reference, of course, to projected expenditures on housing and most other types of constructio or industrial plant and equipment for such consumer-goods industries as textiles and the leather industries. A very large proportion of the capital equipment is expected to be produced in Europe and, presumably, financed by the participating countries and their nationals without any need for dollar exchange. However, it is indicated that the four-year program covers gross imports of equipment for industries programmed specifically by the Paris Committees in the amount of about $3.4 billions together with imports of other machinery to the extent of $1.2 billions.

The third element in the Paris program is an estimate of the consolidated balance of payments deficit of the sixteen participating countries and Western Germany with the United States, the rest of the Western Hemisphere, and the Eastern Hemisphere. The calculation of import requirements and export

expectations is made on the assumption that production expands and capital development is undertaken in accordance with the program. Two important assumptions condition that estimate. First, it is assumed that credits which the European nations will be able to build up with other countries outside the Western Hemisphere—notably in the East and Far East—can be applied against deficits incurred with the American continent. Secondly, it is assumed that whereas the prices of Europe's imports have risen sharply in the past two years, they will decline after the year 1948. The attached table fully summarizes the results of these calculations:

The end results are now familiar. The total aid asked amounts to $19.6 billions. The deficit, however, is on a sharply decreasing scale. Whereas the sixteen participating nations and Western Germany will run a total deficit of $8.3 billions, including a deficit of $8.0 billions with the American Continent in 1948, this deficit should decline to $3.4 billions in 1951 by which time Europe's favorable balance of payments with the rest of the world will reduce its overall deficit to $1.6 billions. These are the best estimates the participating nations could reach as to the extent to which Europe is currently unable to pay its own way. Whether or not we accept this European estimate, the order of magnitude of the assistance we furnish to produce European recovery must be based on a similar estimate of our resources to contribute not just to relief but to real rehabilitation.

C. The Claims on Europe's Economic Resources.

In advance of any attempt to determine how much aid the United States should give, certain comments are in order. The estimates of production and consumption and of their need for American Aid drawn up by the 16 countries at Paris were in part determined (as pointed out above) by the specific economic objectives the governments hoped to achieve. The effort to achieve these

objectives give rise to competing claims on their countries' economic resources. One is to continue to discharge their existing military and political obligations and perform the functions of government. A second is to maintain certain standards of living for their own peoples, in terms not only of current consumers goods but of housing, durable goods and other forms of consumers capital as well. The third is to achieve rapid economic progress (increased production and productivity) through the creation and acquisition of capital equipment.

As to the first claim, there is one broad objective about which an American judgment can easily be made. Every decline in the political and economic power of the Western European nations impose new burdens directly upon us. The United States has a clear and vital interest in the maintenance of independent centers of power in Western Europe. To reduce the cost of European recovery in dollars by limiting the economic resources absorbed by military and political purposes would cost this nation many times what it saved not only in dollars but in terms of security as well.

As to the standard of living set at Paris there is also no evidence that it is excessive either in terms of humanitarian interest or political stability. If the Paris program should go through exactly as written, Europeans would eat less well in terms of calories and far less well in terms of variety in 1951 than they did in the prewar years. In almost all countries the per capita real incomes of the employed population would be lower. Comparison of planned European consumption with that of the United States, which is perhaps the best basis for humanitarian judgment, would show so great a differential that we can ill afford to make the accusation of over-comfortable living. All Europe hoped, however vainly, for an improvement in living standards after the war. In many cases its standards are already cut far too finely for political tranquility.

No such straightforward conclusion can be drawn about the rate of capital formation proposed by the various European nations. Considering physical

destruction, accumulated wartime depreciation and obsolescence, the loss of foreign assets, the change in the price of imports, and the growth of population since 1939, an increase in production well above prewar levels is certainly required to make Europe self-sustaining at a reasonable standard of living. Europe plainly needs mining machinery, rolling stock, and agricultural machinery; German steel capacity that is lost must be more than replaced. However, it is by no means certain that the European countries can "digest" the amount of new capital goods that the plan proposes to produce and import.

This goes back to the question of capabilities, of what is physically possible. Such massive economic innovations as the expansion proposed in steel capacity outside of Germany, the drastic shift from coal to petroleum as a basic source of energy and the sweeping mechanization of agriculture cannot without grave and unnecessary strain be compressed into so short a time. Moreover, it is not necessarily true that rapid mechanization and rehabilitation are the only way or the quickest way to increase production and exports. One reason British coal output is still well below prewar is because the working force in the mines is much smaller. Mechanization and rehabilitation are probably the long run solution but a slightly slower pace may not/cripple recovery. As to food production, agricultural machinery may be urgently needed to replace lost draft animals but the correlation between the wholesale mechanization of agriculture and an increase in the production of food on a limited acreage is not close.

A broader reason for scrutinizing carefully the European proposals is that capital formation is inherently inflationary. To reach their goals in four years, the European nations propose, in effect, to engineer a postwar boom of gigantic proportions. Heavy domestic expenditures for capital goods by governments and private enterprises would, even in more settled conditions, produce full employment, high money incomes, and money demand for consumers goods. It means the diversion of workers from the production of goods for immediate consumption

or for export to the making of goods that will not have any effect on output for several years. Thus, unless capital formation is financed out of real savings, that is out of real abstention by people from the purchase of food, clothing, etc. it means the injection into the spending stream of money that is not matched by a comparable supply of consumer goods.

Before the war, few European countries could afford to invest more than 10 to 15 percent of their national incomes; the aim of some postwar European plans has been to step up this rate to 20 percent or over. To the degree, of course, that the United States provides capital equipment to Europe, it transfers the strain from their economies to our own. Where it can be shown, as in many cases it can, that such equipment really increases the ability of European nations to raise their production and their exports, the investment is worthwhile since it contributes to ultimate European self-sufficiency. But a slower pace might well turn out to be better from the standpoint of the European countries themselves. If the boom could be less intense, if the needed capital development could be spread out over a longer period, the strain on the European economies would be reduced.

D. Policies.

It is doubly essential that the European nations do not over reach themselves if certain basic policies, wisely emphasized in the Paris report, are to be carried out. One such policy is that essential industries get clear priority over non-essential. A universal difficulty in obtaining spare parts, equipment, materials, and labor makes the enforcement of such priorities enormously more difficult.

Much more important, however, is the effect of too high a rate of investment on that policy to which all the nations in Paris agreed--namely, fiscal and monetary reform. The immediate purpose of such reform is to restore real internal purchasing power to European currencies. And this objective can be frustrated as

effectively by over-rapid capital formation, whether public or private, as it can by persistent budgetary deficits. In carrying out their stated purpose to combat inflation, the European governments must be conservative in determining the rate of their own capital development.

Therefore, the policy issues raised by European capital development plans are inseparable from those that relate to fiscal and monetary policy in a more specific sense. The participating countries recognize in their report that internal fiscal reforms directed toward an early balancing of government budgets are indispensable to monetary and exchange stability. The Committee strongly confirms this conclusion.

So long as a government continues to sell I.O.U.'s to central banks (a paper money printing process) to procure funds with which to finance its manifold requirements the instability of the nation's finances will throttle the spirit of enterprise and prevent the essential expansion of production. The great difficulties with which many countries are confronted, must be recognized as well as the fact that an immediate balancing of budgets may be impracticable. It is insisted, however, that progress in this direction must be achieved in proportion to the expansion of production and real national income. The degree of progress attained must be a vital consideration in passing on continuing requests for aid.

Fiscal solvency also bears directly on another policy enunciated at Paris—namely exchange stabilization. Inflation is bound to lead to the fall of the real external value of a nation's currency. Unless continuous depreciation of the official rate of exchange is contemplated there will be a consequent adverse effect on exports and a great stimulus to imports. It is always a nice question whether exchange stabilization should precede or follow recovery. Long experience in many countries, including Europe, after the last war has taught that exchange stabilization is usually the prior requirement. As in 1924 exchange stabilization should be regarded as a foundation stone on which to rebuild shattered economic

structures. It follows that the internal depreciation of currencies must be checked.

The Paris Committee also places emphasis on the removal of trade restrictions. The reduction of tariffs everywhere, including the United States, is undoubtedly a crying need. But tariff reductions are of little moment if nations have to maintain complicated exchange controls with the outside world, and in addition have to perpetuate indefinitely internal price and other controls. Without passing judgment on the merits of socialization or of centralized planning postwar experience proves that one of the greatest stimulants to European recovery would be a condition of affairs where individuals and individual business firms could trade freely with each other. The individual plant manager (in a public or private enterprise) usually has a far better notion of what particular machine tool, for instance, is needed and can be afforded to increase production than an official, with the best will in the world, can possibly have. This does not mean that all restrictions can be lifted overnight. It does mean no mechanism has yet been devised by man which is as effective in producing goods in the right quantities as the market. But the sine qua non of the market is monetary stability and the removal not only of the signs but of the basic causes of inflation.

E. Emphasis as to Areas.

One further aspect of the work of the Paris Committee deserves comment—namely the need for aid of individual countries and areas. The Paris Committee was primarily concerned with drawing up a consolidated European balance sheet of total import needs as set against exports and other income. However the Paris Committee submitted a table showing the possible individual balance of payments deficits of the sixteen participating nations and Western Germany with the American Continent for 1948. This table showed the deficit of the United Kingdom with the American Continent as $2.6 billions, that of

France as $1.7 billions and that of Western Germany as $1.1 billions. These figures do not reflect cuts made at Paris in the total program because of the unavailability of supplies or further cuts that may be made as the program is reconsidered. But they do indicate relative magnitudes as between countries and point up the fact that Britain, France, and Germany between them accounts for about 70 percent of the total aid proposed.

No useful purpose would be served in commenting on the needs of these countries in detail. Of the three it would seem that the problem of France offers the least difficulties for the long term. French import requirements were swelled in 1948 by the failure of her crops last year but in normal years France is tolerably self-sufficient in food. Moreover French capital requirements set originally to absorb over 20 percent of the national income are being cut back in the interests of budgetary reform. Such reform is an all essential to French recovery.

Much more recalcitrant is the problem of the United Kingdom and of Western Germany. Coming on top of the loan of $3.75 billions which the United States extended to Britain in July 1946 the need for further large scale aid--amounting to approximately 30 percent of the Paris program for 1948--is of the utmost seriousness. A solvent Britain is a necessity to the United States especially as any future hope of freeing world trade depends on reaching an adjustment between the dollar and sterling area. Nor should it ever be forgotten that the fundamental problem of Britain's balance of payments arises from the loss of "invisible income"--shipping and return on overseas investments--which occurred in the critical opening phase of the war before United States participation.

Due to this loss the future of Britain depends very largely on the expansion of exports well above prewar levels. Measured in physical terms, which is the best measurement in view of changes in prices, Britain in

1946 was importing only 69 percent of her prewar rate and exporting at 99 percent. In 1948 British imports will still be below prewar levels whereas the target for exports is well above 1938. Thus there has been over-all progress. But it is not the over-all figures that are of primary importance. The British industrial disaster of 1947 which set back the entire export program by months was due to failure to get coal production up to prewar levels. This in turn was due not only to obsolescence of machinery but primarily to a drop in the number of miners. If Britain could export 30 million tons of coal, today, as she did in the prewar years, the whole face of Europe would be changed. It is a sign of hope that to an increasing degree the British government and British opinion are realizing the necessity of cutting down on non-essential industries and concentrating on the essentials. Even so there is no blinking the fact the restoration of British external balance will be arduous. As in no other country Britain presents and will increasingly present the problem of translating earnings in "soft money" areas into "hard" money. The United States can furnish some of the tools, but Britain alone can finish the job.

In the opinion of the Committee, however, it is the policies pursued in Germany by our own Government which are of all-importance to the success of any aid program. If more British coal is essential, so is more German coal. If an attack on inflation is needed in other countries, it is ten times more needed in the area where the United States has direct governmental responsibility and which operates today virtually without any money system at all. It seems probable that, in view of the necessity for increasing German production, relatively too little dollar aid has been assigned to the Bizone area. But if this aid is to be effective there must be a radical reform of policies which the United States has been sponsoring. Otherwise we may see recovery in other areas in Europe and the United States burdened with a never-ending German deficit.

We must begin with what we have in the West. This area has long been of critical importance to Europe. The manufacturing establishments consumed vast quantities of raw materials from surrounding countries as well as from overseas, and these supplies were paid for with a wide range of fabricated exports. Of particular importance were the capital goods which were exported to adjacent countries, thereby giving them the means with which to increase their productive efficiency and to expand standards of living. It cannot be too strongly emphasized that the producing and purchasing power of Germany, and, through Germany, the producing and purchasing power of all Central Europe, is indispensable to the recovery of Western Europe. In view of the great increase in population of Western Germany due to expulsion of Germans from the East, the level of production (in August, 51 percent of the 1936 level) is catastrophically low. It is the view of the Committee that a quick recovery of the Bizonal area, and in particular of the Ruhr is of paramount importance to European recovery.

This brief reference to the special problems of France, England, and Germany leads logically to the mention of one further policy, clearly set forth at Paris, that must be adhered to if the progress of European recovery is not to be halted by stagnation in particular areas. That is the policy of granting appropriate priorities to areas of major importance. The policy proposed is merely that of refusing to allow sectional competition to interfere with the most effective use of resources. In this connection it cannot be stated too emphatically that there is no intention to suggest that Germany should be built up at the expense of other industrial nations of Western Europe. However, where the granting of priority to any of the participating countries over Western Germany can be shown to have an adverse effect on production then the priority should be denied. This is obviously a delicate problem. For instance, it has been stated that the retention within Germany of more Ruhr coal would reduce steel production in the neighboring participating countries about as much as it

would increase German steel production. Plainly, if these facts are correct, no such shift should be made. As between steel production in Germany and equivalent steel production in France, the priority should go to the latter. However, if the retention of additional Ruhr coal in Western Germany could be directed to a revival of the German engineering industry so that spare parts and replacements for German built equipment in the surrounding countries could again be made available, there would be a strong case for such a change in allocations. These are merely illustrations, and are not intended to convey any judgment about so technical and complex a matter as German coal allocations. They are intended only to drive home the point that where meeting certain needs of a particular country would seriously retard general recovery, the interests of the country must give way. For the most part priorities which are important to the revival of Europe are priorities for particular industries or for the production of particular end products. Even where these conflict with the concern of a government for a particular area, they must not be disregarded.

E. Summary of Essential Recovery Conditions.

In the present disorganized state of Europe it is necessary to guard against both over-optimism and over-pessimism as to ultimate results. Due to understandable and laudable motives the Paris committee may have in some respects erred on the former side. The opposite danger, however, is that of giving insufficient recognition to the dynamic and cumulative character of a recovery, if it can once get well underway. It is the intricate interdependence of the parts of a complex industrial economy that makes the European recovery problem so difficult. It sometimes appears as if there were no one place where production can be increased until it has been previously increased somewhere else. But, by the same token, a recovery in basic industries will make possible a remarkably quick recovery elsewhere. The experience of the years immediately following the first world war provides telling evidence in support of this

conclusion. Western Europe was restored to economic health with great rapidity as soon as monetary disorders were brought under control.

It is the judgment of this Committee that European recovery can be rapid provided that the essential conditions, determining effective aid are met. In summary these are:

(1) The central objective must always be to make Europe not independent of the rest of the world but self-sustaining with relation to the rest of the world.

(2) American aid should be on a decreasing scale. A permanent underwriting of European deficits by the United States Government cannot be contemplated. It is clear that as the aid program tapers off it will be imperative for the natural forces of private financing to resume their normal function to restore the long standing relationships between European and United States enterprises.

(3) It should be realized that the conditions which the world confronts today are the very reverse of those obtaining in the thirties and call for very different policies. The participating countries, and most of the rest of the world are in the grip of major inflation. Every added economic burden, raises the pressure. The Committee has seen no evidence that the participating countries are seeking too high a standard of living. However, it must be emphasized that the attempt to accomplish too much capital formation, public or private, too soon could defeat the purpose of the program.

(4) While Europe indubitably needs a large injection of working capital in the form of dollars the consistent aim should be not only to accomplish recovery but to create the kind of national and international framework wherein such recovery can be sustained by the work and effort of individuals. Monetary and exchange stabilization, allowing for the gradual relaxation of hampering controls, are essentials to this end.

(5) If the above conditions can be fulfilled, the United States should contribute generously but wisely to the program set forth at Paris. The actual magnitude of the contribution must depend on a more detailed analysis of Europe's specific needs and the United States' specific capacities which will be presented in the following section of this report.

IV. REQUIREMENTS FOR AND AVAILABILITIES OF SPECIFIC GOODS

A. The Significance of the Analysis.

The data which serve as a base for an analysis of European requirements are those developed by the participating countries at the Paris Conference. Such defects as exist in the plan produced at Paris result rather from the nature and magnitude of the European recovery problem, than from fault of the nations' Paris representatives. Those defects nevertheless make it necessary to attach a number of qualifications to any judgments of a plan for European recovery.

Restoring and maintaining European equilibrium requires not only the recovery of production in the participating countries but also economic recovery in other areas—the Far East, for example. It is ultimately dependent on the achievement of a stable pattern of world production and world trade. The program developed at Paris, therefore, plainly cannot be and does not purport to be a definite answer to the problem of attaining European equilibrium.

The Paris program, of which the validity and the execution are considered in this report, is essentially a series of estimates of economic probabilities in various fields, both in Europe and elsewhere, which in turn have served as the basis for fixing certain economic targets, judged to be reasonable and attainable, at which the program is aimed. Neither the Paris program nor any commentary on it should be regarded as a detailed blueprint in which the ultimate success of full European recovery by 1952 is in any way guaranteed.

The complex inter-relationships of the various parts of the European program and of the several participating countries, necessarily mean that the specific goals of such a plan should be subjected to periodic re-appraisal. Seeking to bring together the ambitious production aims of the several countries and their import requirements from the rest of the world to produce a detailed balance-sheet for such a period as 1948-51 would be a wholly specious enterprise.

As a single example, the progressive increases in economic activity for which the Paris program hopes, depend heavily on the importation of food. Without it, the production goals simply will not be met. And yet the availability of food, even for a period less remote than 1951, is impossible to foresee. Setting up a time-table for European recovery which would be both specific and would also cover an extended period would be an adventure in prophecy rather than a task of economic planning. It must therefore be realized that the economic judgments which are presented in the following sections will inevitably have to be modified in size and altered as to timing in the light of changing conditions during the period of European recovery.

B. The Nature of the Analysis.

A full examination of the Paris program in relation to requirements for American aid would call, as the first step, for an effort to appraise and to judge the validity of the levels of consumption and production which are proposed in the Paris report, and of the basic objectives which underlie them. It has not been possible to do a thorough job of appraising European capabilities. There are considerable differences of quality and completeness in the evidence available in the several fields, and these differences have inevitably affected the nature of the results. Thus, in the cases of coal and of food, the quantity and quality of the available material have made possible judgments which can be put forward with some degree of confidence. In other cases, such as most of the manufactured goods and electric power, the qualifications attaching to the analysis are very much greater. The following sections, in which the individual commodities and commodity groups are considered, are as thorough as the available statistics and time permitted, but their necessarily uneven quality must be borne in mind. Revision of the European requests has

in some cases been upward, and in some cases downward; in each instance on the basis of the most careful analysis that was possible.

The second stage in such an analysis should be an examination of the inter-relationships and consistency of the various production goals. Here such problems as the adequacy of coal production to sustain the proposed level of economic activity, the relation of fertilizer production and use to agricultural production, the impact on machinery and equipment output of revised goals for steel production, and many others must be considered. It has been possible at this time to express only the roughest sort of judgments on the consistency of the inter-related goals of the European recovery effort.

The third stage, that of examining American and world supply availabilities, has been, by reason of more complete statistics and the cooperation of domestic industry, a somewhat easier task; the appraisal which is here presented, and the indications of the limitations which availabilities will impose on the levels of export are more dependable than other parts of the analysis.

These estimates of European net import requirements and of world availabilities have formed the basis for an over-all appraisal of the Paris Conference proposals, and has resulted in judgments suggesting modifications both as to size and as to timing, of the European program and of the plans of the several countries.

C. Food and Agriculture

The Committee finds it necessary to treat the food supply problem in two distinct stages: (1) the critical 1947-48 period during which supplies in the Northern Hemisphere must come from crops already harvested, and (2) the longer-range 1948-51 period during which policies may be carried out to increase the production and availability of essential foods not only in the participating countries and Western Germany but elsewhere throughout the world.

The immediate situation. In its interim report the Committee recognized the extremely critical food situation which faces Europe during the current year. The factor responsible for intensification of the food crisis in Europe this year is weather. An extremely severe winter killed an unusually large percentage of the winter wheat crop. This was followed by a summer drought which greatly reduced yields of spring planted crops. In consequence bread grain production in the participating countries is five or six million tons[1/] below last year and more than ten million tons below prewar. Production of coarse grains, potatoes and milk is also below last year's level.

Unless imports are increased above last year, economic recovery in several countries will be seriously retarded and rations of nonfarm consumers will not be sufficient for heavy work. Some urban groups in these countries will be at or below the 2,000 calorie level. Such a level means low energy and productivity and is conducive to political unrest. The effects of such a diet continued month after weary month can scarcely be comprehended by those of us who are consuming or exceeding the average United States diet of 3,250 calories per day.

The current emergency demands the fullest possible utilization of food resources in Europe, in the United States and in the other food exporting countries of the world. In Europe, food collections from farms must be pushed to the limit. Price and other policies should be adjusted as rapidly as possible to curtail grain feeding of hogs and poultry and provide additional grain for human use. It is

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1/ In this discussion quantities are given in long tons of 2,240 pounds or metric tons of 2,204.6 pounds. The difference between these units is negligible particularly when dealing with rounded estimates.

impractical to expect that more than a part of the drop in food production can be offset by reduced livestock feeding, since hog and poultry numbers in several countries are already 30 to 50 percent below prewar. In addition, the extreme shortages of consumers' goods and the general distrust of the currency in some countries continue to discourage sales by farmers. However, the Committee feels that part of the impact of the current food shortage can and must be directed upon the livestock population in order that nonfarm consumers may have food enough for productive work.

Exportable supplies of food in countries other than the United States may be as much as five million tons larger this year than last. However, it seems probable that half of this increase will go to other countries, leaving only two to three million tons of the increase physically available to the CEEC countries and Western Germany. Even this amount cannot actually be imported unless means of financing the movement are found. In recent months several countries have been forced to reject part of their allocations of Cuban sugar due to lack of dollar exchange. The dollar crisis now facing France and Italy threatens to curtail their imports of even the most basic foodstuffs—grain—unless immediate steps are taken to break the exchange bottleneck.

The Committee feels that the urgency of the current food crisis in Europe cannot be overemphasized. For a time it may prove to be doubly advantageous for the United States to assist the participating countries to purchase food in areas outside this country, to avoid adding to inflationary pressures that are pushing prices upward here and to enable the needy countries to buy in the lowest priced markets. Failure to meet urgent food needs now from any source where food is available on reasonable terms will certainly delay and possibly prevent even approximate realization of the longer term goals of economic recovery in Europe.

The present emergency also imposes a heavy responsibility upon the United States to maximize exports from domestic supplies of grains and other foods. To

that end the President has called for Nation-wide conservation and has created the Citizens Food Committee to conduct an extensive campaign among all users of grain and grain products to conserve grain and provide increased amounts for shipment overseas. We urge wholehearted support for this voluntary conservation program--the spirit as well as the letter. At the same time, the Committee believes that Congress should be asked to restore to the executive agencies the authority to take certain additional measures if they are found to be necessary to back up the voluntary program. The responsible administrative agencies should recommend to the President and Congress the restoration of those limited powers which they conclude are necessary if the program is to be carried out with minimum adverse effects upon the domestic economy. The food distribution regulations applied by the Secretary of Agriculture from time to time to processors and distributors of a few of the most important agricultural commodities illustrate the nature of the measures the Committee has in mind for which legislative authority no longer exists but which may become necessary to prevent waste and assure that essential needs are fully met.

During recent weeks the Department of Agriculture has procured substantial quantities of grain for export. There is reason to believe that the current price differential between wheat and corn, coupled with the voluntary efforts of farmers to limit wheat feeding, will reduce the quantity of wheat fed to livestock considerably below earlier estimates. Although there is no reason for complacency, the Committee feels that real progress has been made and that substantially larger quantities of grain will be acquired for export than had been considered feasible prior to the issuance of the Committee's interim report. Whether a quantity equal to last year's total can safely and wisely be exported will depend on winter wheat crop prospects next spring. If the outlook is for below average yields, it may be advisable, as suggested in the Committee's interim report, to hold back some wheat to cover vital requirements in the next crop year. This possibility underlines the

necessity for rigidly screening United States food exports to all areas in accordance with the principles of greatest need and maximum contribution to world economic recovery.

Although this Committee has given greatest emphasis to grains, it is highly important that other products which are reasonable in cost and in relatively adequate supply be included in the export program. Where commodities of higher cost are accumulated as a result of price support activities, it would be appropriate to subsidize their export on a basis more nearly competitive with grain in terms of cost per calories.

Finally, the Committee is informed that exports of nitrogen fertilizer from the United States have been lagging badly and that there is considerable danger that the quantities allocated to Europe will not be exported in time for application to 1948 crops. The Committee urges that every effort be made to speed up shipments of nitrogen fertilizer with a view to exporting the full I.E.F.C. allocation from commercial channels by the end of February. It may not be feasible at this late date to increase commercial exports above the present allocation but we urge that this possibility be seriously considered by the fertilizer industry and by the administrative agencies concerned with the export program.

The 1948-51 Situation. Before the war most of the participating countries and Western Germany were heavily dependent upon imported food and feed. Many of these were (and are) highly urbanized and industrialized. Only a fourth of the total population of this group of countries lived on farms, and in the United Kingdom little more than 5 percent. Over a third of total calories consumed were based on imports, including shipments from colonial areas. During 1934-38, yearly imports averaged about 25 million tons of grain,[3/] 3.2 million tons of fats and oils, 3.7 million of sugar, 1.7 million of meat and considerable quantities of other foods.

3/ Including net grain movements from Eastern to Western Germany.

Of the 25 million tons of imported grain, about 11 million were used for livestock feed. In addition, 5 million tons of imported oilcake, including the oilcake equivalent of imported oilseeds, were so used. These imports of coarse grains and oilcake made up more than a third of total supplies of concentrate feeds in the participating countries and Western Germany, and a highly developed livestock industry was based upon them.

The war seriously disrupted food production not only in Europe but in many of the exporting areas which had formerly supplied Europe. As a consequence both of war and drought, food production in some of the participating countries in 1945-46 was a third lower than before the war. At the same time imports of most foods other than bread grains were very substantially below prewar. Both production and imports of most foods increased during 1946-47 but recovery was severely setback in 1947-48 by the succession of winter-kill and drought already noted.

The general objective reflected in the CEEC report is to return as rapidly as possible to approximately the prewar agricultural pattern. Significant changes are contemplated in individual countries, but this generalization applies broadly to the participating countries as a group.

The food production plans of the participating countries and Western Germany are summarized in the following table:

Production of Basic Foodstuffs in the Participating Countries and Western Germany

(Million metric tons)

Item	1934-38 average	1946-47	1947-48	1948-49	1949-50	1950-51
Wheat and rye.....	34.0	28.3	21.4	30.2	32.7	34.0
All cereals	64.5	55.6	48.9	60.3	63.4	65.8
Oils and fats 1/ ..	2.8	2.0	2.2	2.5	2.7	2.9
Sugar	3.4	3.3	3.4	3.6	3.7	3.9
Meat	9.9	5.9	6.0	6.5	7.2	8.1
Milk	71.5	55.7	57.0	61.9	65.9	73.4

1/ Including butter. Source: Committee of European Economic Co-operation, Vol. 2.

This production program must be viewed against the background of an 11 percent increase in population from 1934-38 to 1950-51. Since total production is estimated at about prewar levels, per capita production in 1950-51 is implicitly assumed to be some 10 percent below prewar—probably 20 percent in Western Germany and about 5 percent in the other countries taken as a group.

Net import requirements as stated in the summary report on Food and Agriculture are not simply totals of the figures submitted by individual countries. In the case of several basic foodstuffs these totals obviously exceeded supplies which were likely to become available. Consequently, the group totals were scaled down—grain imports in particular from about 30 million down to 25 million tons. Estimates of oilcake requirements were reduced 1.5 million tons in each year, and smaller reductions were made for other commodities during all or part of the 1948-51 period.

The CEEC report makes no statement as to the calorie levels implied in the production and import programs. In general, the figures submitted by individual countries would point to calorie levels equal to or above prewar. However, the scaled-down estimates of import availabilities, coupled with the estimates of indigenous production, imply either a lower average calorie intake than before the war or an increase in calories from cereals to offset decreases in other foods. If livestock were made the residual claimant on grain and if relatively high flour extraction rates were maintained, calorie levels in 1950-51 could equal the prewar average in most countries. However, the composition of the average diet in most countries would be inferior to the prewar level, with perhaps the sharpest reduction in meat.

The livestock program of the CEEC report is shown in the following table:

Livestock Numbers in the Participating Countries
and Western Germany

(Millions)

Item	1934-38 average	1946-47	1947-48	1948-49	1949-50	1950-51
Cattle[1/]	75.0	74.9	74.8	76.6	78.4	80.4
Hogs	41.1	26.1	25.7	28.2	32.3	37.1
Sheep	106.3	100.6	97.5	103.5	106.9	109.5
Horses	13.4	12.4	12.4	12.2	12.1	11.9
Poultry	538.1	432.9	459.4	508.1	571.2	611.5

1/Including milk cows. Source: Committee of European Economic Cooperation, Vol. 2. (Appendix C of report on Food and Agriculture).

By 1950-51 the total amount of feed grains and oilcake required to support this program would be fully as great as actual utilization before the war. Very roughly, the planned increase in cattle and poultry numbers in countries other than Western Germany might require five million tons more grain and oilcake than before the war if prewar rates of feed consumption per animal unit were restored. On the other hand, the indicated numbers of cattle, hogs and poultry in Western Germany as of 1950-51--about 10, 30, and 40 percent respectively below prewar--would require perhaps 3 million tons less grain than prewar.

The livestock program has already suffered a temporary setback as a result of severe drought during the summer and early fall. The CEEC has issued an addendum to the original report which recognizes this condition. In response to the intensified grain shortage several of the participating countries are planning increased acreages of bread grains for 1948, and livestock numbers are being reduced by the pressure of limited grain and forage supplies. For the immediate future this reduction is helpful rather than otherwise, as it tends to release grain for food use.

In view of the present critical shortage of grain throughout the world, the Committee feels that much greater emphasis must be given during the next two years to grains for human consumption than is implied in the original CEEC figures

in order to insure food supplies and rebuild reserves to a safer level. After this has been accomplished the expansion of livestock can be safely undertaken as increased feed grain supplies become available from indigenous production or from other countries. The Committee is not prepared to say that the livestock production estimates cannot be achieved by 1950-1951. However, it feels that very favorable circumstances will be needed for their achievement by that time.

On the basis of preliminary analysis, the Committee feels that even the scaled-down estimates of import requirements for grain - 25 million tons a year - will be very difficult to meet. The CEEC hopes to obtain 9 to 10 million tons of grain a year from the United States. During 1946-47, with total United States grain exports, the largest in history, of roughly 15 million tons, the participating countries and Western Germany got something like 9 million tons. If weather during the next three years is about average for both wheat and corn, the United States might be able to export 10 million tons of grain (about 370 million bushels wheat equivalent) to all destinations but the entire quantity would not be available to Europe. The CEEC also expects 8 to 10 million tons of grain yearly from other American countries, mainly Argentina and Canada. This amount is probably within their capacity to supply. Most of the balance is expected to come from "the anticipated reappearance of traditional exportable surpluses in the U.S.S.R. and Eastern Europe."

The correctness of this last assumption is a vital element in the recovery program outlined by the participating countries and Western Germany. Before the war the flow of grain from Eastern to Western Europe, including movements from Eastern to Western Germany, averaged roughly five million tons a year. This Committee believes that grain shipments from Eastern Europe during the next three or four years will increase from current low levels but

will not reach the prewar rate within the period of the Marshall Plan. On balance, the outlook is that grain imports from all sources will be below even the scaled-down import estimates. Certainly the United States cannot be depended on to export 9 or 10 million tons of grain annually to the CEEC countries.

As a possible offset, it may be that European crop yields for the later years are estimated too conservatively. If the increased applications of fertilizer called for in the production plan are realized, they should lead by 1950-51 to a significant increase in grain production over prewar and to similar improvements in other crops and forage. This assumes, of course, that by 1950-51 other factors affecting production, including the morale of the farm population, will be as favorable as before the war. This condition should be largely realized if the overall recovery program is successful.

The recovery program in Europe also depends to a very large extent upon the resumption of prewar exports of foods other than grains from established producing areas. In the case of fats and oils an energetic recovery program, such as was conducted so successfully in the Philippines, should produce similar results in certain other areas. Recovery in several areas is hampered by lack of incentive goods. In the Netherlands Indies and Manchuria, it is further complicated by political factors. The rehabilitation of traditional sources of fats and oils offers one of the quickest and most important methods of increasing food supplies available to Europe. If dollars are needed to implement recovery in the supplying areas it must be remembered that such dollars may be even more productive on a continuing basis than the same amount spent for food shipments from the United States.

It should be noted that increased population and increased incomes in some of the former supplying areas have materially increased their domestic consumption. In order to provide prewar supplies for Europe it will be necessary to increase production in some of these areas considerably above prewar and also to develop new supplies in other areas which have some underutilized land resources.

Europe is not a large consumer of rice. Nevertheless, the recovery of

rice production in the exporting countries of Southeast Asia will make an extremely important contribution to European food needs. Before the war, Burma, French Indo-China and Siam exported an average of 5.7 million tons of milled rice yearly. During 1947, exports from these countries are expected to total less than 1.5 million tons. The rice deficit areas of the Far East have in consequence made large demands upon world supplies of wheat and coarse grains. If rice could be made available to the deficit areas in prewar amounts, exports of wheat and coarse grains to the Far East might be reduced from 1946-47 levels by two or three million tons, with corresponding increases in supplies available to Europe.

Although rice acreage and production in Burma and Siam are increasing, unsettled political conditions in French Indo-China are expected to cause a further decline in production below last year. The need for a political settlement in French Indo-China, and for production and trade goods in all three countries is on the same footing as the need for recovery in the major surplus areas for fats and oils. The Committee recommends that the Government do everything in its power to stimulate this recovery process. Part of the responsibility for effecting political settlements in French Indo-China and the Netherlands Indies rests with two of the participating countries and this question is certainly germane to the over-all recovery program for these countries.

Before the war, sugar production in the Philippines, Formosa, and Java averaged 3.4 million tons. Last year production in these areas totaled only 0.1 million tons. Recovery is proceeding in the Philippines and production may approach prewar levels by 1951. However, little progress is being made in Java and Formosa. If further analysis of world grain availabilities points to very substantial shortfalls below requirements, it may become important for the participating countries and Western Germany to increase sugar consumption at least to prewar per capita levels. In this situation, recovery of sugar production in Java would assume almost the same urgency as recovery in fats and oils.

It has been noted above that with weather equal to the 1937-46 average, United States grain exports to all destinations might average about 10 million tons a year during the period of the Marshall Plan.

Exports of foods other than grains could in general be maintained at or near 1946-47 levels and could in some cases be increased if necessary financial and distributive arrangements can be worked out. Such commodities as dried fruits, dry peas, dry beans, and nonfat dry milk solids could be made available in larger quantities than last year.

The CEEC requirements of food and feed from the United States have not been spelled out in detail except for the figure of 9 to 10 million tons of grain. Since some United States grain will go to other areas, it seems likely that our grain exports to Europe will average significantly lower than the CEEC estimate over the 1947-51 period, even assuming a rapid recovery of rice production in the Far East. It is understood that the CEEC estimates of dollar cost also assume a substantially larger quantity of meat from the United States than is likely to be available. This item was relatively small in tonnage but large in dollar value. Judging from over-all dollar figures, stated requirements for other foods in the aggregate are well within our ability to supply.

The Committee wishes to preface its discussion of fertilizer and agricultural machinery by underlining a basic point which has not been sufficiently emphasized in the preceding pages. During 1946-47 the United States exported nearly 15 million tons of grain. This figure exceeded total grain exports from all other countries combined. This year, with the largest wheat crop in our history but below-average production of corn, we may be able to approach this record again. In both of these years weather has been unusually favorable to wheat production, especially in the Great Plains where two-thirds of our wheat is grown and where wheat yields are highly variable from year to year.

Average wheather during 1948-51 would mean United States grain exports of about 10 million rather than 15 million tons a year. However, there is a strong possibility that weather during one or more of the years immediately ahead will be

unfavorable to wheat. During 1934-36 as a result of drought the United States was on a net import basis not only for wheat but for corn as well. With world grain stocks now at exceedingly low levels, the effect of such a development would be extremely serious. Hence the greatest urgency attaches to the task of restoring food production in Europe and in areas upon which Europe depended before the war. The abnormal dependence of food deficit countries throughout the world upon exports from the United States must be reduced as rapidly as possible.

One of the most important factors in accomplishing this would be increased utilization of chemical fertilizers in Europe. The level of fertilizer use proposed by the participating countries in 1950-51 is about twice the prewar average. There is no question but that this is a desirable goal and that such quantities of fertilizer can be effectively used. The planned increase in phosphates presents no apparent problem. The potash goals require substantial imports from Eastern Germany but the quantities involved as of 1950-51 should be within the capacity of that area to supply.

The most urgent problems exist with respect to nitrogen fertilizers. During 1946-47 some nitrogen capacity in Europe was underutilized due to lack of coal. Information received from the CEEC countries at the end of October indicates that this situation has now been corrected in practically all of the countries and that little further increase in production can be obtained solely through supplying additional coal. A number of plants were damaged or dismantled during the war. In view of the importance of nitrogen to crop production, these facilities should be rehabilitated without delay except where security considerations are clearly involved. Steel and equipment for this purpose should be given the highest priority.

Revised figures received from the CEEC countries in the past few days indicate substantial net import requirements for nitrogen in 1947-48, 1948-49, and 1949-50—440,000, 297,000 and 149,000 tons respectively. The stated requirement

figure for 1947-48 is far in excess of prospective imports, though not in excess of needs. As a minimum program, the Committee recommends that the full 1947-48 commercial allocation be shipped in time for application to 1948 crops. The Committee believes that nitrogen exports in 1948-49 can and should be increased above this year's level. United States nitrogen output could be increased by fuller utilization of synthetic ammonia capacity owned by the Government, and by construction of facilities required at these plants to permit the production of finished nitrogen fertilizer materials in integrated operations. Sustained production from these facilities will be of benefit to United States farmers long after the Marshall Plan period.

Nitrogen exports from the United States can make a highly significant contribution to food production during the next two or three years. However, the probable dollar value of these nitrogen exports is only about one percent of the estimated value of United States exports of food.

The participating countries have outlined an ambitious program of farm mechanization. Stated import requirements for tractors and farm machinery from the United States total roughly a billion dollars for the four-year period. This is at least four times the recent annual rate of United States exports to these countries. The production goals of the participating countries are equally ambitious. Output of medium and light tractors, already more that double the prewar average, is scheduled to be more than ten times the prewar figure by 1951. This would cover the stated domestic requirements and leave almost half the production for export. Proposed output of all other farm equipment and parts in 1950-51 is more than three times the 1946-47 rate.

Farm mechanization can be beneficial in several ways. It permits more thorough preparation, and more timely planting, cultivation and harvesting. It compensates for labor shortages or releases labor for nonfarm employment. It would be

difficult, however, to establish any precise quantitative relationship between further mechanization and the resulting increase in food production. The replacement of draft animals by tractors, of course, releases land for the production of human food, but a very rough calculation indicates that if the stated tractor requirements were fully met, less than four percent of the arable land would be so released.

Without questioning the ultimate desirability of farm mechanization, the Committee doubts, on the basis of available information, whether it is feasible to accomplish this degree of mechanization within the four-year period. On the basis of estimates supplied by the principal United States exporters of agricultural machinery, it appears that the amount of machinery which could actually be sold and paid for in local currencies in the CEEC countries in 1948 is substantially less than the stated import requirement, although the estimated demand is more than double the actual rate of sales during 1947.

In summary, the amount of American produced equipment which these countries could use to full advantage over the next four years appears to be substantially less than their stated requirements but more than they are now receiving from us. The problem is to balance this need against the demands of United States farmers which are also well in excess of the productive capacity of the industry. The Committee suggests that plans be made to furnish farm equipment and parts at twice the recent annual rate of our exports to these countries. This would be only about 6 percent of our total production. Given the probable increase in United States production and the possible decline in exports to other areas, it would not prevent a small increase in the quantities available to domestic farmers. However, the Committee

believes that it would give the European farmers a preferred position for about all the imported new farm equipment they could use effectively in furthering their food production program. If it develops that equipment in excess of these estimates can be used efficiently for substantially increased food production, it would be economy to supply it. An investigation and report by a competent U. S. technical mission in full cooperation with agricultural experts in the CEEC countries would be helpful in this decision.

It may be even more important for this country to assist and encourage the expansion of farm machinery production in the participating countries, and especially production of repair parts for existing machinery. Specific instances have been called to our attention where output of European implement plants has been curtailed for lack of small quantities of special steel or partly fabricated parts from the United States. The export of such materials would be a much smaller drain on our economy than the corresponding quantities of finished machinery.

D. Iron and Steel and Steel-Plant Equipment

1. European Steel Production. In the last pre-war year the sixteen participating nations produced 20 million short tons of finished steel. Productive capacity, as indicated by output in the most active pre-war years, aggregated 28 million tons. Western Germany produced another 17 million tons.

This output was sufficient to supply their steel-consuming industries and provide net exports of over 2 million tons, thereby helping to balance their international situation.

Outside of Western Germany there was a small net increase in steel-making capacity during the war. Some capacity was damaged. Major repairs had to be deferred, proper maintenance neglected, and modernization schemes postponed. These arrears have not been entirely made up but practically all plant has been brought back to workable condition.

The fuel position, however, is drastically different from what it was before the war. The present shortages of coal and metallurgical grades of coke, particularly the latter, are the greatest obstacle to increased steel production. These shortages stem from the heavy reduction in German exports of such fuel to neighboring iron and steel producing countries and the almost complete cessation of such exports from the United Kingdom.

In order to save fuel, iron and steel producers have resorted to various expedients, such as the use of high grade imported ores and the use of a high proportion of scrap. These expedients have in turn aggravated other supply problems.

In spite of these difficulties, the finished steel output of the sixteen nations in 1947 will be above 1938, but well below the maximum output possible if fuel and other materials were readily available.

Including Western Germany, steel output is still far below the pre-war level. Western Germany, which accounted for almost half the total in 1938

is now producing at only about one-sixth of the 1938 rate. This is due to the actual damage or removal of plants, the shortage of fuel and the policy of curtailing German heavy industry.

The result is that steel consuming industries are seriously curtailed for lack of this essential raw material. Net exports of finished steel are only a fraction of the pre-war rate, thereby aggravating the problem of paying for essential imports.

2. Planned Expansion. The CEEC report sets up an objective of a 40 percent increase in finished steel output of the sixteen countries, and somewhat more for Western Germany, between 1947 and 1948. The plans for accomplishing this objective include (a) increased supplies of coking coal from the United States, (b) utilization of presently unused coke oven capacity in Western Germany, (c) further attempts to economize on fuel through use of high grade ores, etc., and (d) further restrictions on use of hard coke for other than metallurgical purposes. The report frankly recognizes that this objective may not be achieved. It would bring aggregate production, including Western Germany, almost equal to 1938.

The target for 1951 is 44 million tons. This includes 10 million tons for Western Germany, in line with the revised level-of-industry agreement. It also involves considerable expansion, modernization and rounding out of steel making facilities in the other countries. It makes a satisfactory solution of the coke problem even more uncertain than in 1948.

As programmed in the CEEC report this 1951 output would permit net exports well above the 1938 rate as well as a large increase in domestic consumption. Excluding Western Germany, the 1951 consumption would be almost double 1938 and over 60 percent above 1947.

It would be difficult, if not impossible, to calculate just how much production could fall short of this goal without seriously endangering European

recovery. Elsewhere in this report the committee has indicated its reservations as to both the necessity and the feasibility of capital expansion programs which would use some of this steel. There are also doubts as to the ability of the steel consuming industries to expand their output sufficiently within four years to use the additional steel. It seems clear, however, that a major increase in European steel production is highly desirable.

The imports required from the United States in order to carry out this program, as stated in the CEEC report, include (a) steel mill equipment, (b) steel making materials, notably coke and scrap, (c) semi-finished steel for further processing in European mills, and (d) some finished steel. The Committee's conclusions with regard to those requirements stem from its understanding of our domestic situation as well as its evaluation of the European steel program.

3. Demands on United States Production. United States producers will turn out over 62 million short tons of finished steel in 1947. While far above the best pre-war year, this has been insufficient to meet the present needs of the steel consuming industries. Shortage of steel has not prevented a high national output, with relatively full employment of available labor, but it has seriously restricted production of some goods. Automobiles are a notable example.

This situation is paralleled in the export market. In the first half of 1947, a little less than 10 percent of the output of finished steel was exported. An almost equivalent quantity went into products made from steel which were shipped abroad. In addition there were some exports of crude and semi-finished steel. The export demand is far in excess of this supply. Actual shipments have been limited by export controls as well as by the competition of domestic buyers.

The shortage is general but much more serious in some items than others. Sheet, strip and pipe are very tight while certain alloy steels are relatively easy to obtain.

The industry is now in process of adding about 3 million tons of sheet mill capacity. This expansion, which should be completed before the end of 1948, compares with an estimated total output of 18 million tons of sheet and strip in 1947. The resulting increase in sheet and strip output, however, would be merely at the expense of other products if there were not a corresponding increase in steel ingots.

4. Limitations on United States Output. In 1947 the United States will produce over 84 million tons of steel ingots. In spite of excess demand, this is 7 million tons less than the rated capacity of steel making furnaces.

A number of factors account for this difference. Wartime alloy steel requirements resulted in expansion of electric furnaces beyond peacetime needs. Carbon steels can be produced in these furnaces only at excessive cost. Consumer preference for open hearth steel for many uses limits the use of Bessemer converters. A minor portion of the wartime constructed facilities have not been returned to peacetime production because of insufficient supply of reasonably accessible raw materials or specialized design of plants and equipment. Some work stoppages have occurred.

Fundamentally, however, the bottleneck has not been any of these factors. It has been the supply of pig iron and scrap. Any attempt to increase steel production to meet both domestic and foreign needs hinges on obtaining additional quantities of these materials.

The serious shortage of scrap iron and steel reflects (a) the large pre-war exports of scrap, (b) the high domestic scrap consumption during and since the war, (c) the postponed scrapping of items made from iron and steel because of unavailability of replacements, and (d) the large wartime exports of steel products with the resulting loss of potential scrap. The normal

solution to this shortage would be the use of a higher proportion of pig iron. The supply of pig iron, however, is also limited.

The estimated pig iron production of 58 million tons in 1947 is 6 million tons short of the rated capacity of blast furnaces. Some furnaces are not being used at all because of local coke shortages or for other reasons. Coal strikes temporarily halted other plants, thereby reducing pig iron output by an estimated 900,000 tons in the first eight months of 1947. More important, however, is the decline in the quality of coking coal which makes it difficult to operate furnaces at rated capacity.

The ash content of coking coals has risen from about 6 percent in prewar years to 12 percent in 1947. In addition, the wider use of machinery in mining has introduced more slate in the coal. The higher ash and lower carbon content increased coke consumption per ton of pig iron from approximately 1,760 pounds in 1939 to 1,868 pounds in 1946. This reduces the output of blast furnaces and also increases the shortage of coke.

The steel plant expansion program now under way is planned to eliminate some of these bottlenecks as well as to modernize and round out facilities. It is expected that the resulting expansion of steel ingot capacity before the end of 1948 will be about 2.5 million tons or 3 percent. A more than proportionate expansion of 3 million tons in blast furnaces and a still more than proportionate increase in coke ovens is also under way.

Use of oxygen in both blast furnaces and steel making furnaces will contribute part of the planned increase in capacity of those facilities. Companies which have proceeded far enough with experiments to indicate results hope for 10 to 15 percent increase in blast furnace production by this means. A report prepared by an expert for the Committee comments, however, that "what has been accomplished during the past year in the experimental use of oxygen in steel making has been a determination of, rather than a solution of, the problems involved in this application." A number of factors, including the need

for major changes in related facilities, will operate to restrict and delay any increase in capacity from this source.

The scheduled increase in steel making capacity, and more particularly the expansion of sheet and strip mills, will provide some additional supplies for both domestic use and export. As the production and distribution pipe lines are filled, more steel may flow through in the form of finished goods to the ultimate purchaser. A growing shortage of gold and dollar exchange may limit the purchases of non-European countries. There is no assurance, however, that United States output in the near future will be adequate to meet all the demands upon it.

The question of whether the longer term domestic and foreign demand for steel can be met without a major expansion of steel capacity over and above that now in progress is one that the Committee is in no position to determine at this time and is beyond its scope. Consequently, no position is taken on this matter. Any expansion not now planned would contribute very little to steel supplies in the next two years when European requirements are largest. Moreover, such an expansion would itself absorb steel while in progress and would make it more difficult for the European nations to obtain from us the steel making equipment they need. On the other hand, further expansion of steel capacity may be so important in the light of longer range considerations as to justify the use of scarce items for this purpose during the next two years.

5. Steel-Making Equipment. The stated European requirements for steel, steel making materials and steel making equipment must be considered in the light of (a) their significance and urgency relative to European recovery, and (b) our own needs and the limitations on increasing supplies to meet those needs in the near future.

The CEEC report includes an import requirement of 400 million dollars worth of iron and steel plant equipment spread over the four years. This is part of a total program, which would appear to cost some 4 or 5 billions of dollars, which is

apparently designed to round out and modernize as well as expand facilities. It includes everything from ore mining to steel finishing mills. Most of the import requirement would have to be obtained from the United States.

The Committee is not in a position to judge the urgency and feasibility of the individual projects for which this equipment is intended. In a few instances their nature and location raise doubts in this regard. Presumably, however, the individual projects would be subject to the careful scrutiny of whatever agency is to do the financing.

In the absence of any detailed information as to the nature of the equipment required and when it will be needed it is equally difficult to reach a conclusion as to availability without serious interference with production in the United States. We are informed, however, that 15 to 20 percent of the 400 million dollars is already on order. Much of the balance would not be needed until 1950 or 1951.

While no final judgment as to either urgency or availability can be stated at this time the Committee attaches great importance to the requirement for equipment. Well conceived projects for the expansion and modernization of European steel industry outside of Western Germany would undoubtedly help to make the participating countries self-sustaining whereas shipments of steel or steel making materials would have their main effect only during the period of the program. For this reason the Committee places a high priority on the equipment requirement.

6. Scrap. With regard to iron and steel scrap the Committee takes a contrary position. The European import requirement, rising from 1.7 million short tons in 1948 to 2.5 million tons in 1951, is stated by the CEEC to be a minimum on the optimistic assumption that adequate coke supplies will be available.

The Committee is not convinced, however, that failure to meet the stated requirement would cripple the European steel program. There is reason

to believe that European supplies of scrap are larger than was assumed in the Paris report. If not, the plans to compensate for shortages of both coke and pig iron by a high ratio of scrap may have to be modified.

Scrap is in acutely short supply in the United States. Exports would have the effect of reducing steel production here below the rate which would otherwise be possible. The Committee recommends that no scrap be exported from the United States but that, in cooperation with the participating countries, a survey be undertaken immediately to determine how European scrap requirements can be met from other sources.

7. Metallurgical Coke. The availability of coking coal from the United States to meet European requirements is discussed in the fuel and power section of this report.

8. Semi-finished Steel. The semi-finished steel is required mainly in the United Kingdom and in Italy, both of which countries have historically been importers of such products. Analysis of the European steel program indicates that, if the requirement could be met, there would be substantial exports of finished steel from the participating countries collectively, and specifically from the United Kingdom, to non-participating countries. It appears, therefore, that if semi-finished products were not supplied by the United States in the quantities needed, one effect might be, and probably would be, to reduce exports of finished steel products (especially from the United Kingdom) below the levels envisaged in the Paris Report. This would lessen the capacity of the European countries to earn dollars during the period of the program but need not seriously impair the revival of production in steel consuming industries.

It must be recognized, however, that complete elimination on shipments of semi-finished products would have other more serious effects. In the first place, it is stated that the United Kingdom must maintain some exports of finished steel products to non-participating countries in order to insure the physical availability of essential imports. Consequently, a part of the impact of a

refusal to supply any semi-finished products from here would fall upon British domestic consumption of steel. In the second place, only a small proportion of the semi-finished products required by Italy is balanced by projected exports of finished products.

However, the export of semi-finished steel products would have serious adverse effects on the United States economy. It would contribute to the general shortage of finished steel mill products. It might have a drastic effect on the smaller non-integrated steel producers. Most serious of all, it would further deplete the critically low United States scrap supply. Under the circumstances, it is believed that only a part of the stated requirements can be met through additional exports from the United States.

The Committee does not believe, however, that the situation will turn out to be as serious as this conclusion implies. For one thing, it is believed that the real requirements, as they are more closely studied in the process of administering the program, will prove to be lower than the stated requirements in the Paris report. For another thing, the facts quoted above suggest that some part of even the real requirements can be left uncovered without serious effect on European recovery, so long as the resulting loss of dollar earnings during the period of the program is duly taken into account. Finally, it may be possible to increase the supply of semi-finished steel products for Europe in ways not related to the overall size of United States exports. One possibility that should be considered is that of increasing shipments to Europe to the extent of any decline in shipments to other destinations. Another is that of supplying more semi-finished products from Germany than presently planned. Consequently, the Committee believes it will be possible to work out a solution whereby quantities which, after careful examination, may be demonstrated to be necessary for European recovery will be supplied.

9. Finished Steel. The import requirement of steel sheets and strip, as given by the CEEC, is over 700 thousand short tons in 1948 which is four times our recent rate of exports to those countries. In view of the extreme shortage of these items, and the resulting restrictions on our own steel consuming industries, the urgency of this requirement should be subject to careful scrutiny. It is, however, less than 4 percent of our output of sheet and strip and only a fraction of the anticipated increase in United States production. The feasibility of meeting the requirement is also enhanced by the possible decline in non-European exports.

With the assumed expansion of European sheet mills this requirement declines so that they plan to be net exporters by 1951.

The tin plate requirement is more than double our recent exports and it continues over the 4-year period. Here again there is need for further justification of its urgency in the light of our own domestic needs.

The 1948 requirement for all other finished steel, however, is less than half our recent shipments and the participating countries propose to be net exporters by 1950. This requirement may be understated if their assumption as to their own production are too optimistic. In any event it should not be a serious drain on our resources.

E. Fuel and Power

Fuel and power rank high among the inter-dependent key commodities and services upon which the European recovery program is based. Europe's essential need to recover its prewar supplies of energy and to increase them progressively in order to raise the level of productivity of European workers is clearly defined by comparing the present consumption of fuel and power with United States use. At the present time in the United States the per capita consumption of fuel and power is four times as great as the combined consumption in the countries participating in the recovery program; the prewar ratio was 2½ to 1. Before the war four-fifth of the power consumed in the participating countries and Western Germany was derived directly or indirectly from coal. Although these countries anticipate over the next four years a substantial increase in the use of petroleum products and the development of new hydro-electric capacity, the basic source of power will continue to be coal.

1. Coal. Despite reconstruction requirements which make European coal needs greater than prewar levels, coal output from mines in Northwestern Europe and Great Britain is currently substantially below prewar rates, largely due to a lack of skilled labor, acute food and housing shortages, deficiencies in technical development, and the necessity for plant replacement and modernization. With due consideration of these basic difficulties the participating countries have outlined a combined coal production program which even under the most optimum conditions, conceivably may fall short of the tonnages anticipated. The balance between production and requirements is to be offset by imports from non-participating countries and the CEEC has estimated a total of 86 million metric tons* will be required from the United States over the next four years. In terms of total tonnage the United States coal industry is capable of meeting these European requirements in addition to fulfilling domestic

*Metric tons = 2,204 pounds
Gross tons = 2,240 pounds
Net ton = 2,000 pounds

demands for coal. United States coal reserves, including all grades from anthracite to lignite (2,556 billion net tons) will last about 2,000 years at current rate of consumption and with present mining methods and will not be adversely affected by the exportation of coal to Europe in the quantities indicated.

At current production rates, the total 1947 coal output in the United States will approximate 657 million net tons, or about 4 percent below the all-time peak of 684 million tons reached in 1944. Total potential capacity for both anthracite and bituminous coal output in the United States is approximately 700 million tons. Production is currently being limited, however, by the lack of adequate supply of open-top coal cars on the railroads. About 85 percent of all coal mined is transported by rail from the mines to consuming areas. The lack of carrier facilities is limiting the number of loading days and in many instances is preventing full-time mine operation. Coal is not stored in large quantities at the mines, and when transportation facilities are inadequate for shipment of all available coal, production is curtailed. Unless action is taken by the railroad management and/or Government to (1) repair some of the worn equipment being retired; (2) restrict less essential uses of open-top cars, and(3) establish a revised system of car allocation on the basis of sustained productive ability of each individual mine; the tonnages of coal available for export will be restricted, shipments will be erratic, and the European schedule of requirements for United States coal will not be met.

Total consumption of coal in the United States and Canada for 1947 is estimated at 612 million net tons. It is further estimated that total annual requirements through 1951 by the United States and Canada for United States coal will probably not exceed 610 million net tons of all types. United States and Canadian requirements (during the period of the Marshall Plan) are, therefore, substantially below the total productive capabilities of the American coal industry.

Up to the end of World War II, United States coal exports were small in proportion to its coal production. Since that time, however, Western European countries have been acquiring coal in increasingly larger quantities. Total overseas exports in 1947 will probably reach 48.3 million net tons. This figure is well below the total coal loading capacity of United States port facilities which is approximately 5,685,120 net tons (5,076,000 gross tons) per month or equivalent to 68 million net tons (61 million gross tons) per year. Domestic port capacity will not be a limiting factor in the exportation of United States coal to meet European requirements.

The present heavy demand for quality coal, created by the general high level of industrial activity and selective buying by exporters, has boosted the prices of some high grade fuels and resulted in the payment of premiums in some instances by foreign purchases. In general, the exportation of coal to Europe will contribute to the maintenance of the sellers market in the coal industry, but it is believed that this future export market during the years 1948-1951 will not materially alter the present market conditions.

2. Coal Mining Machinery. The realization of European coal production goals in the period 1948-1951 is important in that these goals form the basis for establishing the magnitude of United States aid through coal exports. Among the many essential and interrelated factors which have a significant bearing on the achievement of these goals is that of an adequate supply of coal mining machinery.

During the years 1948-1951 the 16 participating countries

and Western Germany plan to manufacture approximately 97 percent of the mining machinery and equipment requirements within their own sphere. The CEEC has requested that the U.S. provide special equipment not manufactured in Europe. The original requirement on the U.S. stated by the CEEC was $220 millions. It is probable that the European countries can ultimately use this volume of coal mining machinery from the U.S. However, reports from the participating countries to the European coal organization subsequent to the CEEC meetings indicate that some of these requirements can be postponed beyond 1951. Consequently, the Committee believes that $140 million of coal mining machinery would be sufficient to meet the most urgent European requirements (including those of Western Germany) during the 4 year period of the recovery program. Exports at this level would meet about 4% of total European requirements as stated in the CEEC report. Data as to the types, sizes, units, and quantities of machinery, equipment and supplies required from the United States are not at present available and it is, therefore, most difficult to state at this time whether this segment of the recovery program can be wholly or partially fulfilled. Current United States output of mining machinery is limited by shortages of steel, other materials and components, and supply is subject to heavy domestic demand. Some items are approaching an easier supply but others such as steel, rubber conveyor belting, bearings, and electrical motors and control equipment remain tight. The large domestic requirements reflect in part the wartime accrual of replacements, and the desire of operators to modernize production facilities. Increasing exports of equipment means, therefore, spreading the

large backlog of domestic demands over a longer period of time.

The vital need for mining equipment and supplies to maintain present European coal production and sustain the increased output planned cannot be overlooked, however, and it is, therefore, recommended that material aid be extended to the maximum limits possible without jeopardizing the supply of mining machinery needed to maintain a healthy domestic coal industry. Emphasis could well be placed on the export of materials for fabrication into mining machinery and equipment within the 16 participating countries and Western Germany. It is apparent that before increased production of machinery can be accomplished in Western Germany today, in 1948, or any future year, sufficient raw materials in certain catagories must be imported from the United States.

3. Petroleum: Next to coal, petroleum is the most important source of energy for the European recovery program. The increased use of fuel oil as a consequence of the coal shortage together with the increasing demands for petroleum products resulting from mechanization of agriculture, expansion of industry, and growth of road transport emphasizes the importance of petroleum especially in light of the fact that natural petroleum resources within the territories of the participating countries are small and indigenous production cannot be quickly or substantially increased.

World production of crude oil in 1946 was approximately 392 million tons. Over 63 percent of the total was produced in the U.S., 19 percent in other Western Hemisphere countries, 9 percent in the Middle East, 6 percent in the USSR and 3 percent in all other areas, including Europe.

From this supply total requirements of all European countries except the USSR in 1946 were about 44 million tons. Of these requirements about 60 percent were supplied from the Caribbean and Middle East. 20 percent from the U.S. and 20 percent from European production.

The CEEC has outlined petroleum requirements for the participating countries during the period 1948-1951. Total petroleum requirements of all CEEC countries in 1948 are estimated at 59,542,000 tons as compared with 36,224,000 tons in 1938. By 1951 requirements are expected to rise to nearly 77,000,000 tons.

Petroleum output in the CEEC countries, except for Germany and Austria, has been small and will probably be less than 5 percent of the total requirements over the period 1948-1951. Thus the bulk of requirements must be imported from non-participating countries. Approximately 45 percent of the total requirements must be secured from dollar sources, (American companies). Based on July 1, 1947 f.o.b. prices the total value of oil from dollar sources is $2,460,838,000 over the 4 year period.

At the present time world petroleum supplies are inadequate to meet world needs. Even in the U.S. demand exceeds supply and imports of petroleum are about equal to the level of exports in volume terms. It is extremely unlikely, therefore, that the European petroleum requirements as indicated in the CEEC report can be met in full within the period 1948-51. During the next few years it is expected that there will be a large expansion in the availability of crude oil from Middle East fields. At the same time, a corresponding expansion of refining capacity and transportation facilities must be made. The

expectation is that these developments will ultimately make possible the fulfillment of European petroleum requirements but with a lag of at least one or two years behind the rate projected by the CEEC.

Exports of petroleum and its products to countries participating in the recovery program cannot be considered a drain on U.S. petroleum reserves, because the domestic industry is producing all the petroleum which can be effectively recovered with present equipment and would not produce less if exports declined. U.S. petroleum reserves have been estimated by the American Petroleum Institute at approximately 22 billion barrels at the end of 1946. This represents an increase of 17 billion barrels over the first reserve estimate made in 1922 by the U.S. Geological Survey and the American Association of Petroleum Geologists. Continued expansion of domestic oil reserves seems certain. Substantial quantities of oil will likely be found in the continental shelf area bordering the U.S. Furthermore, future revision and extension of reserves in existing fields are expected to add to the domestic supply.

Refinery capacity in the U.S. is being operated at over 90 percent of capacity. Most idle capacity is obsolete and poorly located so that any substantial increase in domestic refinery production will require capacity expansions which is currently being retarded by the general shortage of such equipment.

Maintenance of an even flow of petroleum and petroleum products from producer to markets is presently aggravated by shortages of tankers, tan cars, and pipe lines to carry the unprecedented volumes now in demand in the U.S.

U.S. crude oil production in 1947 is estimated at 5,068,000 barrels per day. It is probable that the 1947 production represents the present maximum efficient rate and therefore it is unlikely that domestic output will increase over the next four years. Imports of fuel oils, and crude petroleum must be expanded in order to meet the very high domestic demand for petroleum and petroleum products which is anticipated by 1951.

Petroleum Equipment:

The CEEC Report contemplates a considerable expansion in petroleum processing capacity in Europe which calls for large quantities of new petroleum equipment. The fulfillment of European recovery objectives depends largely on the availability of new equipment for the production and distribution of crude oil and finished products. Some of this equipment is needed in the CEEC countries themselves. Most of it, however, is needed for the expansion of production, refining, and transportation capacities of British and American petroleum companies in the near East and other areas.

The total volume of petroleum equipment required from 1948 to 1951 by oil companies owned by CEEC nationals and operating within CEEC countries and elsewhere is $1.9 billions. This estimate does not include the requirements of U.S. owned companies even within the CEEC countries themselves. It is expected that the CEEC countries will produce $1.3 billions of this total. This leaves a balance of almost $600 millions of petroleum equipment to be supplied by the U.S.

It is probable that the total equipment requirement stated by the CEEC report, plus projected expansion of petroleum capacity by

other countries, including the U.S. exceed the world capacity to produce petroleum equipment. Thus it is extremely unlikely that the U.S. can export as much equipment as is requested. Furthermore, CEEC expectations concerning European equipment production seem unrealistically high. However, in light of the importance of petroleum equipment to the European Recovery Program, every effort should be made to extend a maximum amount of aid as long as the requirements of the American petroleum industry are not seriously prejudiced thereby.

5. Electric Power. Consumption of electricity increased in Europe during the war period, but was not accompanied by a corresponding increase in generating capacity. A continued growth in consumption is expected which will reach a level in 1951 about 80 percent above that of 1938. In order to provide for this anticipated expansion of electrical power requirements, the annual rate of growth of generating capacity will, according to CEEC estimates, have to be nearly four times the rate in 1937-38. The expansion of generating capacity, as programmed by the participating nations will likely fall short of estimated requirements in 1951. It is, however, an exceedingly ambitious program for the next four years. The planned additions, ranging from 4.7 million KW in 1948 to 5.9 million in 1951, compare with an estimated 1.8 million in 1947 and 1.5 million in 1938.

Power development plans for at least the major participating countries had been prepared by competent engineers before the Marshall Program was proposed. The European representatives report that in most instances the plans for specific projects are completed

and orders for critical machinery placed. In general there is little reason to question the soundness of the program or its ultimate desirability. However, the concensus of those who are informed on European capacity to produce electric equipment is that it may well take six or seven years instead offour.

Almost all of the necessary equipment for the 5 billion dollar "national" program, to add over 21 million KW of capacity, is expected to be produced within the participating countries. There are $300 million dollars of special equipment which the CEEC anticipate will have to be obtained from the United States. The latter figure includes such diverse elements as valves, machine tools and construction equipment. Only a small part would be electric equipment and apparatus.

In addition to the large "national" program there is a small "international" program to cost about 300 million dollars and provide another 2.3 million KW. It is proposed that the United States provide all of the equipment amounting to about two-thirds of the total cost of this program.

Output of electrical generating, transmission and distribution equipment in this country is far above the pre-war level. Generating equipment output apparently is close to capacity but, with additional supplies of silicon steel, output of transformers and related equipment could be increased substantially. Industry opinion is that it will take years to catch up with domestic demand. Even with some further increase in output of equipment it is apparent that any large increase in exports to meet European requirements would have to be at the expense of domestic customers. The effect would be to postpone

an expansion of electrical power capacity in this country with the possibility of temporary shortages of power in some areas.

However, the reported European requirements of electrical generating, transmission and distribution equipment from the United States in 1948 and 1949 are so small that they will not create any major difficulty. Generating and distribution equipment required in the last two years of the program -- or possibly not until later -- bulk somewhat larger relative to the capacity of United States equipment producers. The total stated requirements are roughly one-fifth of the current annual rate of outlays for equipment by United States utilities. It should be possible, however, to meet these requirements without serious inconvenience to electric power consumers in this country if domestic equipment manufacturers will make allowances for such requirements in the formulation of production programs for 1950 and 1951.

F. Transportation.

1. Introduction--The Problem. First, can the United States transportation system handle the aid program requested by the CEEC without interference with essential domestic transportation?

Second, what will be the impact on our merchant marine of shipping such a program overseas? What should be our attitude with respect to the foreign shipbuilding program proposed by the Paris countries, and its relation to the surplus tonnage of war built vessels in our own fleet?

Third, what inland transportation equipment does Europe really need and how much can we safely and wisely supply? What can the Paris countries and the bizonal authorities do to make the best use of Europe's inland transport system?

It can be assured that no probable aid program will more than maintain the high level of exports achieved during the first half of 1947. The burden on United States transport and the requirements for shipping will therefore be no higher than they have been, and probably not as high.

2. The United States Transport System. Broadly speaking it is concluded that if certain steps are taken there is no reason why a foreign aid program should interfere seriously with the ability of the transportation system to handle the needs of the United States domestic economy. Insofar as there is a problem, it is a railroad problem. Our ports, our inland waterways, out trucking facilities and out highways are in general adequate to deal with any demands likely to be made upon them. Furthermore, insofar as there is a railroad problem, it is a problem of freight car supply, both box and open-top. Other railroad facilities will not be seriously strained.

During October this year more cars of revenue freight were loaded than at any time since 1930 with nearly 25 percent fewer cars than were available at that time. This record performance was not sufficient to meet promptly every request for railroad transportation, but except for coal it can be said that all urgent and essential transportation needs were filled. Thus the job the

railroads will be called upon to do is no greater than the job they have been doing in recent weeks. If equipment can at the least be maintained they can meet this challenge as they have met earlier challenges.

Whether there is a foreign aid program or not, however, there are two danger spots that will have to be rather carefully watched to prevent them from threatening transportation efficiency. These are the supply of box cars, vital to the movement of export grain, and the supply of open-top cars on which the domestic as well as the export coal movement depends.

a. Boxcars. Boxcars are tight now because boxcar ownership has been declining for several years in the face of a rapidly mounting volume of traffic. This year's bumper wheat crop has put an unusually heavy strain on boxcars which was especially apparent during September and October when car demands are at their peak. Improvements in car handling have made it possible to meet this peak load without a crisis this year. But the margin is slim. There is a limit to what can be done with fewer and fewer cars. Advantage must be taken of the breathing spell which the slackening demand of the next few months should afford to strengthen our boxcar position so that we will be in a position to meet whatever demands may develop next fall with some insurance against contingencies.

b. Open-Top Cars. Shortages of open top equipment have been a factor actually limiting coal production in the United States in recent weeks. Export targets for Europe have had to be cut by 1.5 million tons for November, for instance, because of car shortages. These result partly from a continuing decline in the open-top car population, and partly from increasing demands for these cars for hauling commodities other than coal such as ore, construction materials, and the like. These other demands will increase next year rather than diminish. Hence, if the export coal program is to be met without jeopardizing the domestic economy the downward trend in railroad ownership of these cars must be reversed, and even better utilization must be made of the cars we now have.

The present strengency in open tops is serious. Nonetheless, it is possible with vigouous action on the part of car builders, railroads, and shippers to secure enough cars by next year to do both the export job and the essential domestic jobs. As in box cars we are at the point of peak demand in October and early November. By this time next year we can put outselves in a position to handle next year's peak more effectively.

c. Car Production. If these two tight spots are to be prevented from developing into crippling bottlenecks vigorous action must be taken on two fronts. The first of these is car production. The existing target of ten thousand new cars per month is well below the combined capacity of the car builders and the railroad shops. This target has not been even approximately achieved as yet. Even if achieved, it would be inadequate to increase quickly enough the available supply railroad freight equipment in this country. In addition some cars for export to Europe are badly needed if a transport breakdown there is not to render the balance of the aid program fruitless.

The transportation situation requires that the car production target be raised to a minimum of fourteen thousand cars per month. If experience indicates that even higher output is at all possible, the target should be raised further. Efforts are now being made by the steel companies and the car builders to arrange for the balanced flow of steel necessary to bring car production up to the target. These efforts must be pressed with the utmost vigor. If adequate steel cannot be supplied to the car builders in any other way it must be done by allocation. If the car builders are unable to make efficient use of the steel delivered to them, ways must be found to correct the situation. There are few programs more urgent for this country or for Europe than the rehabilitation of transport to insure the carriage of freight and allow a margin of safety for contingencies.

d. Car Utilization. Even if the car production program reaches the higher targets proposed above in the near future the expansion in our freight car population will be painfully slow. Continued vigilance is necessary over the utilization of our existing pool of cars if difficulties are to be avoided. As suggested above, the record to date has been encouraging. But by continued special efforts the Committee believes that still more work can be got out of existing equipment. This is at least as much a matter for procuring agencies, shippers, and consignees, as it is for the railroads themselves. Timid and spasmodic procurement of grain, for example, can result in a highly uneconomic use of cars. The five day week in industry generally has increased loading and discharge time over weekends. Special incentives for overtime to expedite car turnaround may be necessary.

e. Controls. No special transportation agency or new control legislation seems to be required in connection with the foreign aid program. Existing controls are administered for the most part by the permanent transportation agencies such as the ICC and the AAR. The special expediting that is needed to keep continuing pressure on all concerned for efficient car utilization can be much more effectively exercised through these agencies than through any complex administrative superstructure. Whatever agency is set up to administer the foreign aid program must have a keen recognition of the importance of transportation to the plan as a whole, and must stand ready to take action, formally or informally, to coordinate procurement, transport and shipping and to clear up particular difficulties as they develop with the help and cooperation of the railroad agencies. However, any attempt to formalize such arrangements in special legislation would, we feel, be likely to impede rather than to encourage efficient use of cars.

3. Ocean Shipping.

a. Dry-Cargo Ships. There is no shortage of dry cargo ships to carry any world commerce that is likely to develop under an aid program for the next several years, but the tanker position may become quite critical by 1951 if appropriate action is not taken.

In the face of a present world surplus of dry cargo tonnage the sixteen nations represented at Paris have indicated their intention to build some 15½ million deadweight tons of shipping in the next four years. This will require very considerable quantities of steel and other materials in short supply as well as a good deal of labor. At a time when steel for urgently needed inland transport equipment—to mention but one item among many--is very scarce, the wisdom of a shipbuilding program as large as that proposed seems to us open to serious question. The Paris countries defend the program on the ground that the types of vessels currently in surplus are not suitable for the purposes for which their new construction is intended. This is undoubtedly true in part, but in an emergency period like the present they perhaps could manage with some tonnage not ideally suited to their purposes in the interests of conserving resources for the production of what from a world point of view are more desperately needed items.

The United States Government has in its possession hundreds of ships that are not now being used and that will never be needed by our merchant marine under the most optimistic assumptions about its future. At present under the sales policy of the Maritime Commission very few additional vessels from this war-built surplus are being offered to foreign countries. This policy should be changed to permit foreign sales whenever we are satisfied that they will be accompanied by commensurate reductions in European construction programs. On the other hand, further sales of dry cargo ships abroad should not be made when such sales, instead of substituting for foreign construction, will merely add to the foreseeable future surplus of

tonnage. The United States needs an active merchant marine for national defense, and we must not create conditions in which that merchant marine cannot survive.

Whatever transfers may be arranged under the above conditions, a considerable amount of shipping will remain under the ownership of the United States Government. In order for this tonnage to continue to be available for the carriage of essential cargoes of coal, grain, and other commodities, it is important that Congress should extend the authority of the Maritime Commission to bareboat charter those vessels at least one more year beyond the present deadline of March 1, 1948.

To promote maximum flexibility in handling the Marshall Plan bulk cargoes and to avoid the cost and administrative delays involved in moving bulk carriers in and out of the laid-up fleet, a working reserve of at least 100 Liberty vessels should be maintained for ready availability.

b. Tankers. Tankers present a somewhat special problem. In the first place the position here is one of prospective world shortage rather than surplus. In the second place, it is generally recognized that the great bulk of Europe's required petroleum imports, most of which will come from the Eastern Hemisphere in the future, will and should be carried in foreign flag vessels. Hence it is appropriate to transfer to foreign flag any United States surplus tankers which are not required for our own import programs insofar as this can be done without jeopardizing national defense.

The Committee recommends as part of the aid program the transfer to foreign governments of some special tanker types now in lay-up. These vessels, consisting principally of nearly sixty Liberty tankers, are not needed by United States interests and they could be sold by the receiving governments to private interests in foreign countries for local currency.

The Committee also recommends the construction in American yards of some new, large, fast tankers for the American oil companies to ease the

prospective tanker shortage and strengthen our fleet available for defense. These tankers should be designed in cooperation with the Navy so as to incorporate such special features as to speed, etc., as the Navy may desire. Such construction would release additional numbers of our older tanker types for sale to foreigners.

It is further suggested that the presently planned balance between foreign construction of dry cargo and tanker vessels be shifted to provide for more tanker construction and less dry cargo.

In order to meet any possible tanker operating contingency Congress should extend beyond March 1 the authority for operation of United States Government owned tankers under general agency agreements.

4. Dollar Shipping Costs. The Paris countries estimate that their gross dollar expenses for ocean freight for the four year period will amount to about $1200 million for dry cargo and $500 million for tanker freight charges. It should be possible to reduce the total of $1,700 million to the neighborhood of a billion dollars. In the first place the cargo requirements with which the Paris Conference was working will be reduced somewhat by lack of availabilities. Second, their original figure includes over $200 million to be paid foreign flag vessels for carrying cargo to Europe from areas other than the United States. Whatever dollars may have to be furnished for this purpose should be held to a minimum. Third, the tanker dollar freights can be very greatly reduced by the transfers abroad and the additional foreign construction proposed. Finally, the bulk freight rate assumed in the Paris calculation is unrealistically high.

It is argued that this dollar cost could be still further reduced if United States would transfer additional vessels abroad for foreign flag operation in the bulk trades over and above those exchanged for reduced foreign construction. Since it is not seriously proposed that the United States should abandon its liner fleet, the potential savings are limited to the $500 million that

Europe will probably require to cover dollar freights on United States tramp vessels. Even this estimate exaggerates the savings obtainable from transfers, since under foreign flag these vessels would continue to have substantial dollar expenses. The limited financial savings are not sufficient to justify the drain on United States resources for national defense which such transfers would involve.

5. European Inland Transport.

a. General. The transport system of Western Europe, which was badly damaged by the War, has made considerable progress toward recovery. Nevertheless, it was barely able to squeak through the winter of 1946-47 without a major breakdown chiefly as a result of crises in Western Germany. There were instances in which food spoiled, coal had to be stockpiled at mines, and raw materials could not get into the productive process for lack of adequate transport. It is clear that this is one of the most vital spots in the whole foreign aid program, since if Europe's transport system cannot carry a minimum load, imported commodities cannot be distributed, and it is useless to hope for a revival of the European economy.

This is mostly a problem of effective action in Europe, and especially in the Bizone, although even with such action help from the United States in the form of equipment and raw materials for equipment will be required. Germany lies at the heart of the problem for three reasons. Firstly, Germany is physically in the middle of Europe and many of the shortest routes between other countries lies across German territory. Secondly the most important single production problem on the continent from the standpoint of the Paris countries is Ruhr coal, and without adequate German transport facilities Ruhr coal cannot be distributed to the West. Thirdly, a principal barrier to the reestablishment of efficient transport service in Europe is the difficulties placed in the way of the international movement of goods by the lack of currency convertibility. This problem

is more serious between Germany and the rest of Europe than between any of the Paris countries. Such steps as are recommended elsewhere in this report for restoring normalcy of operations in the German economy generally will have a more beneficial effect on European transport than any other one factor. But a minimal rehabilitation of the German transport system is itself a necessary condition for the restoration of other normal functions of the German economy.

b. Railway Equipment Requirements. The Paris countries report that, if they received adequate supplies of raw materials, they can supply all their own needs for transportation equipment (except possibly railroad passenger cars) and in addition produce a surplus of 124,000 cars over the four years for export to the Bizone. Their stated needs do not appear to involve any unreasonable increase in traffic over current levels. Unfortunately, however, they seem to have grossly overestimated what they can do to expand their own car supply. It seems most unlikely that they will be able to help Germany to any significant degree. In fact, they will have to put great emphasis on their repair programs, make maximum use of their waterway and highway facilities, and utilize their railroads as efficiently as possible in order to meet their own minimum requirements.

c. Self-Help Measures. The Paris Conference countries should push forward with a number of measures of self-help to improve their own transport position. Their inland transport program, including new production, replacement, and repair, will require some 16 million tons of steel over four years or about one-twelfth of the total steel they hope to have available. Unless these countries place a top priority on steel for transport purposes their transport systems will not be able to meet the demands of reviving European production. The United States should urge Paris Conference countries to give transportation requirements top priority for procurement of steel. Less essential uses such as shipbuilding should take second place. Otherwise aid will not be effective.

There has been inadequate attention paid in Europe to the needs and possibilities of international highway transport. For the most part trucks cannot move across national boundaries. Progress must be made with an international convention or with bilateral agreements facilitating international trucking. The European countries should give consideration to the continued import of trucks from this country (which the United States can easily supply) as a means of relieving congestion on the railroads.

The return of railway cars to their country of origin is essential to facilitate repair. This depends on the reestablishment of the car exchange arrangements in operation before the war. Difficult questions of ownership continue to arise which could prolong negotiations for such a scheme for many months. This delay must not be allowed to occur. The solutions appropriate to these problems must be worked out by the countries concerned in whatever fashion they see fit. The United States agencies which are responsible for operations under any economic assistance program should insist that effective solutions be arrived at, and quickly.

d. The German Transport Problem. The Bizonal authorities have stated a requirement for forty-one thousand new freight cars by the end of 1948. If they do not get these cars it seems probable that their servicable car park may well fall by that time by as much as seven or eight percent below the critically low level of January, 1947. The requirement as stated seems a reasonable one, even assuming an effective repair program and arrangements for a fuller use of the Rhine and other waterways. On the other hand, the freight car position in this country is so tight that the United States cannot safely and wisely plan to export during 1948 the number of cars requested. To strip our own railway system to the point where the export program could not be handled at this end would be to cut off our nose to spite our face. However, the Committee does recommend that every effort be made to supply from this country some twenty thousand

freight cars (the equivalent of about ten thousand domestic cars) for Germany during 1948.

These cars, however, which will not solve the German transport problem by any means, must not be regarded as in any degree a substitute for an intensive repair program in Germany which must be pressed with the utmost vigor. Adequate steel for this repair program is even more important than new cars.

Furthermore, the supply of these cars, vital as it is in meeting the immediate problem, is in no sense a long run solution to the German transport problem. More fundamental steps must be taken to use the Rhine and other waterways more effectively, and to integrate transport rehabilitation with a comprehensive plan to bring the German economy up to the restricted levels of activity now agreed to.

The Rhine, normally the backbone of transport for the bulk exports of the Ruhr, is not now being fully utilized because of a disagreement over financial matters. There is now very considerable tug and barge capacity lying idle in Holland and Belgium because the Bizonal authorities and the Netherlands and Belgian governments cannot agree on a plan for the reciprocal use of the Rhine by the river vessels of all three countries. This plan as recently discussed involves using the Low Country ports for the movement of cargo destined for the Bizone which now passes through Hamburg and Bremen. The Low Countries feel they should get some current return for handling this cargo, while the United States military authorities contend that their appropriations will not permit them to spend any additional dollars on cargo handling charges. If this matter could be settled, the resulting clearing arrangements might permit the movement of as much as 10 million tons more coal a year from the Ruhr. In cases such as this where inadequate appropriations for OMGUS are limiting the effectiveness of European

transport facilities the United States should certainly provide the relatively small additional amounts necessary to reestablish normal Rhine traffic. It would be the height of folly to permit a small financial impediment to stand in the way of an improvement in transport which could make a major contribution to the recovery of Germany and Europe.

G. Other Machinery

In addition to the programs specifically covered by the technical committees, the CEEC report includes an item of 1,148 million dollars of other equipment required from the American continent "to create new capacity or to restore or replace damaged capacity." No indication is available as to how this estimate was derived or what is included. Hence it is not possible to draw any conclusions as to the reasonableness or the urgency of the requirement.

There is in addition an unspecified amount of equipment and parts required for normal repairs and replacements. On the other hand, the equipment requirements reported by the technical committees—and discussed elsewhere in this report—include materials, such as steel pipe, as well as machinery in the narrower sense. The total amount of machinery imports included in their 4-year program appears to be in the neighborhood of $5 billion but this is only a rough approximation.

In most instances it has not been possible to segregate the machinery items in the import requirements so that they can be related either to United States' productive capacity or to present exports. In only two instances are the requirement estimates even approximately equivalent to American production and export data. These are agricultural and railroad equipment. Deducting these two programs leaves a balance of over $3 billion of other machinery, or roughly $800 million per year.

Total exports of producers machinery from the United States to these countries, excluding the same two categories, were at the annual rate of less than half a billion dollars in the first half of 1947. Allowing for the crudity of the calculation, and for some uncertainty as to the basis of the dollar valuation, it would appear that they are asking for substantially more than they have been getting.

Some indication of the composition of European machinery requirements can be gleaned from recent United States exports to that area. In the first half of 1947, and again excluding railroad and agricultural equipment, these were made up as follows:

Metal-working machinery	22 percent
Trucks	11 "
Construction and conveying equipment	8 "
Office machinery	6 "
Textile, sewing, and shoe machinery	4 "
All other	49 "

With some important exceptions, notably machine tools, demand for most items of producers equipment is well in excess of domestic production. Output is limited by shortages of steel, particularly sheet and strip and particularly where steel is a relatively large part of the value of the finished product. Output of many items is also limited by plant capacity. Moderate increases in production are expected over the next year as additional steel becomes available and additional capacity comes into operation.

The very high domestic demand reflects in part the wartime accrual of replacements, and in large part the effort to

expand and modernize production facilities quickly to meet the needs of a much higher than pre-war level of national output. Maintaining or increasing exports of equipment means delaying that process and spreading the backlog of domestic demands over a longer period of time. Even total elimination of exports, however, would not balance supply and demand in important instances.

In general, the foreign demand is also far in excess of the recent rate of exports. However, only about one-fourth of those exports have been going to Europe. As the gold and dollar balances held by the rest of the world are exhausted there may be some decline in non-European exports and, therefore a greater availability for European aid, even without any deliberate policy of diversion.

H. Other Goods.

1. General. The CEEC report presented a very large figure, not broken down into detailed commodities, for miscellaneous requirements. Some of these goods have been considered in previous parts of this report in the sections to which they are relevant; thus, account has been taken of ships in the transport section, of pipes and tubes in the section on iron and steel, and so forth.

There remains a considerable number of other items for which no specific requests were submitted, but which were covered into this miscellaneous category. In the absence of detailed data, no searching examination has been possible. The Committee nevertheless believes that the export, even at present rates, of some of these commodities will exert an inflationary effect on the United States economy, although some others may be in relatively free supply. In view of this, and of the fact that European production of these goods may increase during the latter part of the four-year period, the Committee recommends that decisions as to the appropriate level of exports be left to the administrator of a European recovery program. The agencies presently charged with operation of export controls should continue to exercise strict regulation of such exports, and they should consult with the administrator of a European recovery program as to the extent to which exports of these goods are advisable.

Data on the amounts which may be available for export are indicated in the table on the following page. It must be emphasized, however, that the figures which are shown under the heading "Available for Export" are not necessarily the amounts which the Committee regards as advisable to furnish to Europe.

Comments on several of the commodities, on the basis of meager statistical data, are presented below.

2. Cotton. Preliminary analysis of the CEEC Report indicates that in 1947-48 the European demand on the United States for raw cotton will be in the

AVAILABLE SUPPLY, U. S. CONSUMPTION, AND AMOUNT FOR EXPORT OF SELECTED COMMODITIES, 1948

Commodity	Unit	1948 Potential Production	1948 Imports	Available Supply	Estimated U. S. Consumption	Available for Export Actual	Available for Export % of Prod.	Current Rate of 1/ Exports(1947) Actual	Current Rate of 1/ Exports(1947) % of Prod.
Textiles									
Raw Cotton	Mil. Bales	11.5 2/	.2	11.7	9.5 3/	2.2	18.8	3.5	29.7
Linters	1,000 Bales	1,230	100	1,330	1,250	80	6.5	60	4.9
Cotton Cloth	Mil. Sq.Yds.	11,118	30	11,148	10,148	1,000	9.0	900	8.1
Rayon Fiber	Mil. lbs.	1,075	50	1,125	1,080	45	4.2	45	4.2
*Rayon Fabric	Mil. Yds.	2,035	3	2,033	1,798	240	11.8	240	11.8
Cotton Tire Cord	1,000 lbs.	290,000	0	290,000	184,000	106,000	36.6	13,000	4.5
*Rayon Tire Cord	1,000 lbs.	210,000	0	210,000	191,000	19,000	9.0	19,000	9.0
*Hard Cordage, Rope & Twine	Mil. lbs.	505	56	561	555	6	1.2	3.6	.7
*Raw Jute & Butts	Long Tons	0	95,000	95,000	95,000	0	0	0	0
*Burlap & Jute Bags	Mil. lbs.	500	40	540	520	20	4.0	20	4.0
Lumber	Mil. Bd. Ft.	35,500	1,200	36,700	35,700	1,000	2.8	1,000	2.8
Pulp and Paper									
* Total Paper & Board	1,000 Short Tons	21,800	4,080	25,860	25,195	665	3.0	355	1.6
*Total Paper Products	1,000 Short Tons	12,000	10	12,010	11,760	250	2.1	120	1.0
*Total Wood Pulp	1,000 Short Tons	12,500	2,200	14,700	14,510	190	1.5	135	1.1

* Indicates commodities where domestic demand will exceed supply regardless of exports.

1/ Based on first 6 months 2/ 1946-47 crop 3/ Assuming this level of mill consumption

AVAILABLE SUPPLY, U. S. CONSUMPTION, AND AMOUNT FOR EXPORT OF SELECTED COMMODITIES, 1948

(Continued)

Commodity	Unit	1948 Potential Production	1948 Imports	Available Supply	Estimated U. S. Consumption	Available for Export Actual	Available for Export % of Prod.	Current Rate of 1/ Exports(1947) Actual	Current Rate of 1/ Exports(1947) % of Prod.
Leather									
*Sole, welting & offal, bovine	1,000 lbs.	380,000	5,150	385,150	377,900	7,250	1.9	5,250	1.3
*Upper and Lining	1,000 sq. ft.	1,315,000	16,000	1,331,000	1,285,400	45,600	3.5	47,850	3.6
*Glove and Garment	1,000 sq. ft.	430,000	1,750	431,750	421,750	10,000	2.3	12,125	2.8
Leather Manufactures									
Boots and Shoes	1,000 prs.	475,000	3,000	478,000	471,000	7,000	1.5	7,200	1.5
Rubber									
Pass. Car Tires	1,000 units	70,059	0	70,059	61,425	8,634	12.3	1,698	2.4
Truck-Bus Tires	1,000 units	15,803	0	15,803	10,675	5,128	32.4	1,693	10.7
*Conveyor Belting	1,000 lbs.	50,000	0	50,000	50,000	0	0	6,600	12.9

* Indicates commodities where domestic demand will exceed supply regardless of exports.

1/ Based on first 6 months 2/ 1946-47 crop 3/ Assuming this level of mill consumption

neighborhood of 2.5 million bales. This will certainly be at or near the upper limit of our ability to export, and, unless mill consumption declines considerably from the 1946-47 level, may be more than we can achieve. Careful screening of requirements and intelligent administration of export controls will be necessary if exports of such magnitude are made during the 1947-48 crop year. In succeeding years it seems probable that increased world production may relieve the situation to some extent.

3. Other Fibers. The only other textile fiber mentioned in the CEEC Report was wool. As the United States is a net importer of wool, there are no apparent requirements for that commodity from this country. It appears that world supplies will be adequate, although mill consumption at present rates will reduce world carry-over to some extent. There have been no indications of any requirements for rayon, jute or other natural fibers. It is felt that whatever needs develop within the participating countries will be met by sources outside the United States.

4. Timber. The world, including the United States, has an inadequate supply of softwood timber and of the better-quality hardwoods. Although the available data on European requirements do not show clearly what kinds and grades are wanted, indications are that the demand will be heaviest on the more critical items, those that are in short supply in the United States. If some flexibility as to grades and species is permitted, it would seem that the quantities of timber products needed from American sources over the four-year period, around $418 millions is within reason. More detail is needed as to the requirements of equipment for logging, sawmills and veneer mills. It is felt that some scaling down may be necessary in this area, particularly in view of the fact that it is doubtful that the full request for $57,330,000 from the United States could be met in the four year period.

5. Wood Pulp and Paper. There appear to be no requirements on the United States for wood pulp or for paper. The United States will, in 1948 and succeeding years, be in a position to export sizeable quantities of paper products if needed for European recovery. This will only be true in the event that there is no important diversion of the present shipments of Scandinavian pulp to United States manufacturers.

6. Hides, Leather and Shoes. In the CEEC Report no details are given as to requirements of hides, leather and shoes. As Europe does not traditionally import any sizeable amounts of these commodities from the United States, it is felt that demands in this area will probably be small. There are indications that the requirements during 1948 may be in the neighborhood of 1,000,000 cattle hides. This is very close to estimated exports for 1947, which have produced a shortage on the domestic market. If the unusually high domestic cattle kill is not continued in 1948, it is probable that exports of this magnitude would result in a severe strain on the United States leather and shoe producers.

7. Rubber Products. In the field of rubber products, few problems are presented other than conveyor belting. All transportation items are in free supply and proven capacity is available to produce at a rate far greater than any foreseeable demand. Crude rubber is a strategic material which could be purchased for adding to the Government stockpile sometime in the future when the world supply-demand position would permit.

Conveyor belting is the only major rubber product where a serious shortage exists. Production capacity is being increased, but the outlook for 1948 is that domestic demand will exceed the total production for that year. Requests of the European nations for 1948 alone are equal to about one-half of the United States estimated production. The Committee

recommends that these requests be carefully screened with respect to how much conveyor belting could actually be put to use in European coal mines during the next four years and particularly in 1948.

c. Chemicals. Requirements of chemicals were not given in the CEEC Report, but estimates have been made that indicate that the total demand in 1948 on the United States may be in the neighborhood of $260 millions. As the total estimated output of the United States' chemical industry is around $9 billions annually this figure represents a very small portion of the total. Nevertheless, there are some critical areas where any increase in exports could have a serious effect on the domestic industry.

VII. THE MAGNITUDE OF THE PROGRAM

A. Nature of the Calculations.

The analysis in section IV on requirements and availabilities indicates limits on the quantities of a number of key commodities that can be made available to Europe. It is now urgently necessary to estimate the overall cost and it is understandable that Americans and Europeans attach great significance to any such estimate, whether it is the CEEC estimate as a measure of European need or an American estimate as a measure of what the United States can undertake. This section of the report sets forth estimates of overall magnitude. But in presenting them, the Committee wishes to make two observations, both of which are warnings against overemphasizing the importance of any such figures of overall dollar magnitudes.

The first observation is that, while total magnitudes have to be expressed in dollars, the basic decisions should be made not in terms of amounts of money but of quantities of goods. This has nothing to do with administration. It does not mean that any part of a program of American aid should necessarily take the form of the supply of commodities rather than the transfer of funds. It is rather a way of emphasizing the fact that the real cost to the people of the United States depends upon the amounts of goods and services supplied; that is, the real wealth transferred to the governments and people of other countries. It does not depend upon the size of entries in books of account.

The second observation has to do with the nature and imperfections of the figures. For reasons explained in section III on the European recovery problem, the amount of American aid required can be estimated only by calculating the foreign exchange deficit of the participating countries. To make such a calculation even for a limited period it is necessary to engage in a kind of economic forecasting which is subject to a wide range of error, no matter how honestly and carefully done. Europe's import needs are affected by the amount of coal that is mined in

the Ruhr, the severity of the winter, the size of European crops, and rates of production in many European industries beside mining and agriculture. An estimate of what Europe will actually import must take account of the availabilities of supplies elsewhere in the world. European exports depend directly upon production and that, in turn, upon imports. Unpredictable though they are, Europe's imports, exports, and production can be more reliably forecast than can the prices at which European exports can be sold and the prices that will have to be paid for imports of food and raw materials. Yet a change in the forecasting of any one of these alters the estimate of the foreign exchange deficit.

Because of the inherent impossibility of narrowing the margin of error to a tolerable size, no honest man will try to decide at this time how much aid Europe will need and how much it would be wise for the United States to give for a period as long as four years. Moreover, grave consequences would follow from any ill-advised attempt to achieve a finality for which there is no basis. A rigid ceiling set too low would provoke another crisis; one set too high would encourage waste. Nor is finality necessary. Presumably, funds to cover most of whatever program is approved will be provided by Congressional appropriation or by a public corporation whose annual budgets would be subject to Congressional review. Hence, the final decision will be made year by year; administratively, the unpredictability of the need will be recognized. However, the American people have a right to know what is likely to be the ultimate cost of any commitment upon which they enter. Accordingly the estimates presented here are in the form of a range of possibilities defined by an upper and a lower limit rather than in terms of a specific figure. Estimates in this form of the magnitude of the whole program must be supplemented by more precise figures covering the first year.

B. The Burden on the United States Treasury.

The Committee believes that the burden on the United States Treasury in the form of grants and loans would be approximately $5.75 billions for the

first calendar year of the program and between $12.5 and $17.2 billions over the whole four-year period. If American aid is promptly made available so that the calendar year 1948 may be taken as the first year, the unexpended portions of appropriations already made for aid to the participating countries will cover a part of the cost. It is estimated that approximately three-quarters of a billion of such funds will remain which would reduce the amount of new appropriations needed to approximately $5 billions.

These figures do not represent the full foreign exchange deficit of the participating countries. The way they are calculated is summarized on the following pages in Table I for the year 1948 and in Table II for the years 1948-51. The first step is to estimate the imports that the European countries will need from the United States and from Canada and Latin America. This is the major cost that the countries in question have somehow to cover in currencies other than their own. Next, it is necessary to estimate the participating countries' exports to the Western Hemisphere. To the extent of their exports they will be paying for their imports with their own production. Although exports and imports are the two largest elements in the balance of payments, there are other costs they will incur and other revenues they will receive in the currencies of the Western Hemisphere countries. One cost is that of supplies for dependent territories. Another is for services of all kinds, especially shipping services. The revenue items include earnings on their remaining investments in this hemisphere and what we pay for shipping and other services. All of these items are summed up in the third and fourth lines of Tables I and II. The result is a figure for the estimated balance of payments deficit which measures the excess of the costs and must be met by the participating countries in the Western Hemisphere over their revenues from the Western Hemisphere.

It is impossible to go further in the calculation without encountering a major complication. Plainly, the size of the European balance of payments

Table I--Balance of Payments Projection 1948
(Billions of dollars)

	CEEC			Low Availability			High Availability		
	USA	Other America	Total America	USA	Other America	Total America	USA	Other America	Total America
1. Imports	-5.93	-3.24	-9.17	-4.35	-2.96	-7.31	-5.05	-3.41	-8.46
2. Exports	+.85	+1.31	+2.16	+.70	+1.10	+1.80	+.85	+1.31	+2.16
3. Net position on invisible account	-.56	-.02	-.58	-.45	+.09	-.36	-.42	+.06	-.36
4. Net position of dependent territories	-.35	-.11	-.46	-.35	-.11	-.46	-.30	-.10	-.40
5. Unadjusted Balance of Payments	-5.99	-2.06	-8.05	-4.45	-1.88	-6.33	-4.92	-2.14	-7.06
Terms of Trade Assumptions:									
6. Assumption of stable prices of imports						-.55			-.63
7. Assumption of falling prices of imports			--			--			--
Adjusted Balance of Payments:									
8. Assumption of stable prices of imports						-6.88			-7.69
9. Assumption of falling prices of imports			-8.05			-6.33			-7.06
10. For Treasury Financing			+.92			+1.10			+1.35
Financed from United States Treasury:									
11. Assumption of stable prices of imports						5.78			6.34
12. Assumption of falling prices of imports			7.13			5.23			5.71

Table II--Balance of Payments Projection 1948-51
(Billions of Dollars)

	CEEC			Low Availability			High Availability		
	USA	Other America	Total America	USA	Other America	Total America	USA	Other America	Total America
1. Imports	-21.03	-14.05	-35.08	-14.91	-13.31	-28.22	-18.60	-15.61	-34.21
2. Exports	+4.67	+7.63	+12.30	+4.10	+6.50	+10.60	+4.68	+7.63	+12.31
3. Net position on invisible account	-1.58	+.01	-1.57	-1.28	+.50	-.78	-1.02	+.40	-.62
4. Net position of dependent territories	-.39	-.27	-.66	-.33	-.33	-.66	-.17	-.29	-.46
5. Unadjusted Balance of Payments	-18.33	-6.68	-25.01	-12.42	-6.64	-19.06	-15.11	-7.87	-22.98
Terms of Trade Assumptions:									
6. Assumption of stable prices of imports						-.04			--
7. Assumption of falling prices of imports			+2.57			+2.08			+2.52
Adjusted Balance of Payments:									
8. Assumption of stable prices of imports						-19.10			-22.98
9. Assumption of falling prices of imports			-22.44			-16.98			-20.46
10. Non Treasury Financing			+3.13			+4.48			+5.82
Financed from United States Treasury:									
11. Assumption of stable prices of imports						14.62			17.16
12. Assumption of falling prices of imports			19.31			12.50			14.64

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deficit will very directly affect the prices the European countries will have to pay for European imports. If prices decline, they will be able to buy needed food and raw materials more cheaply; if prices stay at present levels or rise further, their imports will cost them proportionately more. The CEEC made its calculations on the basis of an assumption the Committee believes to be unrealistic. However, to rest any conclusions on any specific assumption as to the behavior of prices introduces into them an unpredictably large element of uncertainty. Therefore, two alternative assumptions have been employed. One takes account of the present high prices and allows for little price decline in the next four years. The other is the optimistic assumption employed by the CEEC that the prices the European countries pay for their imports will decline steadily. The estimate of the balance of payments deficit has been adjusted on the basis of each of these two assumptions and the adjusted figures are those in Lines 8 and 9.

The resulting adjusted deficits are considerably larger than the estimated burden because they will not have to be covered in full by grants or loans from the United States Government. In order to arrive at the cost of the program to the United States Government at least three deductions must be made from these figures. First, whatever dollar funds the International Bank makes available for the financing of capital development programs will serve to make up a part of the deficit. Second, unless it is contemplated that the United States Government shall make up the entire balance of payments deficit incurred by the European nations in their trade with Canada and Latin America, a further deduction can be made for that proportion of it that is covered in some other way. Third, there will almost certainly be some private capital funds available to finance European governments and enterprises, especially in the latter part of the period. The American corporations that have branch plants, for instance, will probably have to provide some such funds. Effective monetary and exchange stabilization would make some European private dollar balances available. A successful recovery program will certainly place a number of the European

governments in a position to go to the private capital market before the four years have elapsed. These deductions should total between $1 and $1.25 billions in 1948 and from $4 to nearly $6 billions over the four-year period. The estimates set forth above of the burden on the Treasury are arrived at by making these deductions from the adjusted balance of payments deficits.

The final results appear in Lines 11 and 12 of Tables I and II. As to the cost of the whole four-year program, the lowest figure arrived at by the most favorable combination of assumptions is $12.5 billions; the highest is $17.2 billions. There is a similar range of possible estimates for the year 1948. However, certain possibilities as to the first year can be discarded as highly unrealistic. It seems particularly unlikely that European imports can be bought during the next 12 months at the prices that prevailed last July, in view especially of the large increase in the price of food that has taken place since then and the world shortage that seems certain to continue for another year at least. Consequently, the range of figures for the cost to the Treasury that is believed by the Committee to be relevant is from about $5.5 to just over $6 billions. It is recommended that planning proceed on the basis of the figure of $5.75 billions as stated above.

C. European Imports.

This statement of conclusions needs to be supported and explained by some reference to the underlying estimates. It is logical to begin with the figures for European imports. Certain import requirements appear to have been overstated even as requirements. However, those for foodstuffs and for most consumers goods have not, and probably raw material requirements are reasonable as such. But certain of the figures for capital goods and equipment are decidedly high. The most extreme case is that of agricultural machinery. The amount stated to be required is so large that there is the gravest doubt as to whether it could

be utilized by the importing countries even if it could physically be made available and its import could be financed. Mining machinery is another case in point. Although a high priority is and should be attached to expanding coal production, a highly competent study by the European coal organization suggests the requirement may be lower than that stated by the CEEC.

Far more serious than the over-statement of needs is the revision in import estimates required by limitations on supply in the United States and elsewhere. Total food and fertilizer imports will almost certainly be $3 to $4 billions less over the four-year period than those projected in the Paris program. The supply limitation will be serious in the case of cotton and non-ferrous metals and it will be the controlling factor with regard to shipments of many types of equipment and machinery from the United States.

Revised estimates of imports are set forth on the following page in table III in comparison with the Paris figures. As the margin between the two alternative sets of revised estimates indicates, there is greater uncertainty concerning imports from the Eastern Hemisphere than those from Canada and Latin America or from the United States. Total imports from the United States for the four-year period are estimated to be from $2.5 to $6 billions lower than estimated by the CEEC when adjusted in the light of supply possibilities. However, the revised figures for shipments from other Western Hemisphere destinations range from three-quarters of a billion below to $1.5 billion above the CEEC figures. The Paris estimates of what would be available from Canada and Latin America would appear to have been more realistic than their appraisal of the supply position in the United States.

D. European Exports

It is more difficult to make any reasonable estimate of European exports. Since the physical availability of supply will be the limiting factor on imports

Table III A. OEEC States Import Requirements for 16 Participating Countries and Western Germany
(In billions of dollars)

		1948			Total 1948-1951		
		USA	Other America	Eastern Hemisphere	USA	Other America	Eastern Hemisphere
	Imports of Commodities Covered by Paris Technical Committees						
	Commodities						
1.	Food, feeding stuffs and fertilizer	1,452	1,856	1,937	5,910	7,807	9,732
2.	Coal and other solid fuels.....	342	--	255	666	--	1,515
3.	Petroleum products.....	512a/	n.a.	n.a.	2,187a/	n.a.	n.a.
4.	Iron and steel products.....	370	--	43	1,292	--	146
5.	Timber.....	96	170	253	351	621	1,417
	Equipment						
6.	Agricultural machinery.....	370	--	n.a.	1,188	--	n.a.
7.	Mining machinery.....	80	--	"	220	--	"
8.	Electrical equipment.....	150	--	"	500	--	"
9.	Petroleum equipment.....	168	--	"	555	--	"
10.	Steel plants.....	100	--	"	400	--	"
11.	Inland transport equipment.....	203	--	"	490	--	"
12.	Timber equipment.....	10	--	"	32	--	"
13.	Sub-total programmed items	3,853	2,026	2,488	13,791	8,428	12,810
	Other Imports						
14.	Machinery, n.e.s.....	287b/	--	n.a.	1,148	--	n.a.
15.	Unspecified.....	1,787	1,212	2,211	6,086	5,619	9,388
16.	Total Imports (13/14/15).....	-5,927	-3,238	-4,699	-21,025	-14,047	-22,198

a/ Estimate of dollar costs for petroleum imports from all sources. b/ Partial estimate.

Table III B. Estimated Imports of 16 Participating Countries and Western Germany Assuming Low Availability
(In billions of dollars)

		1948			Total 1948-1951		
		USA	Other America	Eastern Hemisphere	USA	Other America	Eastern Hemisphere
	Imports of Commodities Covered by Paris Technical Committees:						
	Commodities:						
1.	Food, feeding stuffs and fertilizer	1,150	1,500	1,030	4,350	6,450	5,190
2.	Coal and other solid fuels	370	--	200	825	--	1,150
3.	Petroleum	250	235a/	b/	850	1,365a/	b/
4.	Iron and steel products	175	20	25	675	80	70
5.	Timber	95	140	200	345	520	1,125
	Equipment:						
6.	Agricultural machinery	75	15	neg.	455	90	neg.
7.	Mining machinery	80	neg.	"	220	neg.	"
8.	Electrical equipment	100	"	"	355	"	"
9.	Petroleum equipment	75	"	"	375	"	"
10.	Steel plants	50	"	"	200	"	"
11.	Inland transport equipment	60	"	"	150	"	"
12.	Timber equipment	15	"	"	55	"	"
13.	Sub-total programmed items	2,495	1,910	1,455	8,855	8,505	7,535
	Other Imports:						
14.	Machinery, n.e.s	400	--	n.a.	1,350	--	n.a.
15.	Unspecified	1,450	1,050	1,900	4,700	4,800	7,900
16.	Total Imports (13/14/15)	-4,345	-2,960	-3,355	-14,905	-13,305	-15,435

a/ Estimate of dollar costs of petroleum imports from all sources other than U.S.A.
b/ Estimate of imports not available see footnote a/.

Table III C. Estimated Imports of 16 Participating Countries and, Western Germany Assuming High Availability
(In billions of dollars)

		1948			Total 1948-1951		
		USA	Other America	Eastern Hemisphere	USA	Other America	Eastern Hemisphere
	Imports of Commodities Covered by Paris Technical Committees:						
	Commodities:						
1.	Food, feeding stuffs and fertilizer	1,270	1,825	1,600	5,320	8,325	8,500
2.	Coal and other solid fuels.....	370	--	255	775	--	1,515
3.	Petroleum	250	235a/	b/	1,000	1,215a/	b/
4.	Iron and steel products.....	300	20	25	1,135	80	70
5.	Timber.....	95	170	215	345	620	1,250
	Equipment:						
6.	Agricultural machinery.....	125	15	n.a.	655	90	n.a.
7.	Mining machinery.....	105	--	"	320	--	"
8.	Electrical equipment.....	125	--	"	455	--	"
9.	Petroleum equipment.....	130	--	"	525	--	"
10.	Steel plants.....	100	--	"	350	--	"
11.	Inland transport equipment.....	60	--	"	210	--	"
12.	Timber equipment.....	15	--	"	55	--	"
13.	Sub-total programmed items	2,945	2,265	2,095	11,145	10,330	11,335
	Other Imports:						
14.	Machinery, n.e.s.....	500	--	n.a.	1,700	--	n.a.
15.	Unspecified.....	1,600	1,140	2,000	5,750	5,280	8,500
16.	Total Imports (13/14/15).....	-5,045	-3,405	-4,095	-18,595	-15,610	-19,835

a/ Estimate of dollar costs of petroleum imports from all sources other than U.S.A.
b/ Estimate of imports not available see footnote a/.

in so many cases, a basis exists for determining what may reasonably be expected. However, European export capabilities depend primarily on European production. There is little doubt that European exports were over-estimated in the Paris report, probably by a rather large percentage. Domestic production goals set forth in the Paris report are generally on the optimistic side. The evidence of recent production rates and recent exports suggest that it will be difficult for the Europeans to reach the goals they have set. A small percentage decline in domestic production may be sufficient entirely to wipe out an exportable surplus. Moreover, it would be unwise for the European governments to maintain exports by imposing too severe an austerity upon domestic consumers. Wholly aside from the intrinsic desirability of maintaining an adequate standard of living, some increase in the supply of consumers goods seems almost essential to the restoration of production incentives. The attempt to reach export goals if expectations of production are not fulfilled will only add to the inflationary pressures that are responsible for so many of the present dislocations in the European economy.

Aside from these general considerations there are a number of specific cases in which the unavailability of imports will operate directly to limit European exports. The case of semi-finished steel products has been noted in the section on steel requirements.

It appears impossible for European exports of finished steel products to reach anything like the Paris figures without very damaging effects on their domestic steel consuming industries. The textile industry may turn out to be another case. The world supply of cotton does not appear to be adequate to permit operation of existing facilities to capacity without which large exports could not be achieved. The quantitative importance of this particular component is impossible to gauge because it is not separated out in the CEEC report. As these two examples illustrate, the expectation of European exports as large as those projected in the Paris report is not consistent with reduced estimates of imports.

The larger the reduction of imports imposed by supply limitations, the greater the reduction of exports. On the basis of the smaller of the two alternative estimates of European imports in table II, it has seemed realistic to cut the CEEC figures for exports to the Western Hemisphere during the whole period of the program by about one-sixth. In dollars the cut is $1.7 billions. Even taking the highest estimate of European imports, somewhat lower export figures must be used to take account of specific shortages such as steel and cotton. The figures used in arriving at a rough calculation of the balance of payments deficit are given in Tables I and II.

E. Prices.

The exports and imports of participating countries will be the decisive elements in their balances of payments. However, a third factor which will decisevely affect the result is the relationship between the prices the European countries receive for their exports and the prices they have to pay for their imports. The Paris calculations assume that price relationships will change over the next four years in favor of the participating countries. To give effect to this assumption, the figures for gross imports are reduced by 7½ percent for 1949 10 percent for 1950; and 12½ percent for 1951. The downward adjustment in the cost of imports from the Western Hemisphere, (shown in Line 9 in Tables 1 and 2,) amounts to over $2½ billions for the four-year period.

In appraising the realism of this assumption, it should be borne in mind that it implies a decline in the prices of foods and raw materials by more than the assumed reduction of 12 percent in the prices of all European imports. Unless future price changes follow a totally different pattern from any that have occurred in the past, the prices of many products will be relatively rigid even in the face of a decline in the general price level. Specifically, there is no reason to expect that the dollar cost of most items of machinery and equipment will be sharply reduced. Most of the reduction in the average cost of imports would

have to come about through a decline in the prices of foods and raw materials. These flexible price items make up about a third of CEEC's estimate of imports from the United States and more than half of total estimated imports from all sources. Thus, the CEEC assumption implies a decline in the cost of food and raw materials in the order of 20 percent over the next four years.

This assumption is difficult to accept. It is pointed out in the sections of this report dealing with specific commodities that European import needs in many fields cannot be met because of the unavailability of goods. World supplies of grain, meat, and fats and oils will probably be inadequate for four years. Petroleum requirements of the magnitude estimated by CEEC cannot be met because of the limitations on world production, refinery capacity, and means of transportation. The story is the same with regard to many raw materials and manufactured goods. This outlook for a continued shortage of the foods and raw materials which Europe must import, which are also the goods with the most sensitive prices, is not consistent with the assumption of a pronounced fall in the prices to be paid for imports by the participating countries. Moreover, the prices assumed by the CEEC for the first year of the program are those of July 1, 1947. Thus, the starting point is too low, especially for foods. Realism requires an upward revision for the first year.

Although the CEEC's assumption about prices is almost certainly too optimistic, any specific alternative assumption would also be subject to an extremely wide margin of error. Therefore, in recalculating the foreign exchange deficit of the participating countries, two alternative assumptions about prices have been used to determine a range of possibilities, as with exports and imports. The CEEC assumption derives a certain authority from its use in the Paris report; it has therefore been employed as the most optimistic alternative. To define the less optimistic alternative, it has been assumed that prices in the first year

would be 7½ percent higher than July 1, 1947, and 7½ percent lower in the fourth year. The Committee believes that the actual course of events will be much closer to the less optimistic assumption.

F. Trade with the Eastern Hemisphere.

The only other factor of major importance in the calculation of the balance of trade deficit is the treatment of trade between Europe and the Eastern Hemisphere countries. The CEEC estimated that this trade would be approximately in balance in the first year of the program and that the European nations would accumulate a surplus of over $3 billions in the course of the four-year period. It further assumed that this surplus could be used to reduce the foreign exchange deficit expected to be incurred in trade with the Western Hemisphere. A discussion of this point would lead too far afield from the text of the report and it is deferred to the Appendix on the Magnitude of the Program in Part III. The assumption actually used in the revised calculations given in Tables 1 and 2 is that only half of the Eastern Hemisphere surplus could be applied against the Western Hemisphere deficit.

G. Significance of the Estimated Budgetary Cost.

If the estimates of the cost of the foreign aid program to the United States Treasury discussed in this section are to be seen in perspective, it is necessary to be clear as to what the figures include. In the first place, they include an estimate of the occupation costs incurred by the United States Army in Germany and Austria, minus the direct cost of United States troops and personnel. This item will soon be running at a rate of over $1 billion a year. The net figures also include items of the sort that have been financed in the past by the so-called post-UNRRA relief program and, indeed, all forms of United States Government grant or loan. For the first half of calendar 1947, withdrawals and disbursements for relief, loan, and grant-in-aid purposes in Europe, excluding the British loan, have been at an annual rate of about $2 billions a year. Prior to

the establishment of convertibility for sterling on July 1, and the run on sterling, British loan withdrawals were at the rate of $2.6 billions. Taking the three items together, Germany plus other relief plus British loan, it may properly be said that the United States has been covering the European foreign exchange deficit at a rate of over $4 billions per year. We know that we are committed to at least one major continuing outlay for occupation costs. To this extent, at least, the proposed program is not a net additional burden over and above those which we would have had to bear in any case.

In the light of these comments, the Committee's judgment as to magnitudes can be expressed in qualitative terms as follows: First, as to the immediate future, what is required is the continuation and a moderate increase of what the United States Government has been doing, together with the initiation of large-scale lending by the International Bank. Although this would not involve an increase in total amount, the expenditures would be better directed and better controlled as to destination and use, and they would be made in pursuit of a more constructive and more clearly defined objective. Second, as to the whole four-year program, precise calculation is impossible; the CEEC's estimate of the foreign exchange deficit will probably turn out to have been too large; nevertheless, the deficit will be of the order of magnitude indicated in the Paris report.

Viewed from the standard of the United States interest in European recovery, an estimate of the amount of aid required is an estimate of the price that must be paid for certain important benefits. The benefits are human, economic, and political; they include the preservation of a certain kind of society and, it is hoped, the prevention of World War III. The Committee desires to emphasize its profound belief that there could be no more wasteful procedure than to make too small an investment. European requirements should be examined realistically. The United States should limit its aid to what is really necessary for recovery and must limit its aid so as to safeguard its own resources. But if too narrow a conception of what is needed for recovery prevails, the recovery program will degenerate into costly relief.

VII. THE FINANCING OF EUROPEAN REQUIREMENTS.

A. Present Dollar Resources.

The principle of helping Europe to help itself applies to the financing of the program as well as to production. First then a brief survey of Europe's own financial resources is in order.

Discussion of the world dollar shortage might give the impression that the world outside the United States was bare of gold and dollars. This is not so. The gold stock of the United States is at present approximately $22 billions; the amount of gold held outside the United States, exclusive of Russia, or earmarked for foreign account in the United States is about $11 billions; and to this may be added cash dollar holdings, which are claims on gold, to bring the total be between $16 and 17 billions of gold and dollar balances. Thus the basic gold and dollar reserves of other countries, as a total, are substantially larger than before the war in financial terms, though smaller in terms of purchasing power. They are not far from their pre-war relationship to the United States gold stock.

The difficulty, of course, lies in the distribution of these reserves. During and since the war the liberated Western European countries have been steadily losing gold and dollars, and up until very recently the neutral and Latin American countries made substantial gains.

The net of all this is that the United States is not the only holder of gold and dollars, and the dollar shortage may be eased somewhat by the increase of trade and the extensions of credits among other countries of the world in addition to any aid which the United States may render. These gold and dollar balances of course represent the monetary reserves of these countries against heavily expanded currency and bank credit; so the amount of leaway is not great.

More important than official reserves is the amount of funds held by the nationals of European countries, either in the form of hoarded gold, or in United States or Swiss bank notes, and the still larger amount of balances and investments

in the United States, Switzerland, and elsewhere which are not today available to meet the needs of those countries. It is difficult to determine the amounts of funds of this sort, but, for example, it is estimated that in the case of France the amount of gold and United States bank notes hoarded is between 2 and 3 billion dollars. The United States Department of Commerce estimates that the amount of foreign investments in this country is approximately $8 billion, of which $3 1/2 billion is stocks and bonds, with the rest principally direct investments, real estate, mortgages, and trust funds.

Several of the foreign countries have employed various methods of trying to reach these funds by one legal device or another, with varying degrees of success. Some pressure has been brought upon the United States to act as a policeman in driving foreign funds back home, but this country has always taken the position that foreign money here is under the protection of our laws and traditions as to the sanctity of the property rights of the individual. These countries have a further potential resource in private funds of American business and individuals, which would become available for loans or direct investment in European countries as soon as economic conditions became more stable. They are now being repelled by economic uncertainties. Experience in this and previous emergencies appears to indicate that the key to obtaining use of some of these resources lies not in legal compulsions, but in the establishment of confidence on the part of nationals of the different countries in the policies of their own Government, and especially in the stability of their own currencies. In this situation, money can be coaxed, not driven.

To put the matter another way, we are all familiar with Gresham's Law which is that "bad money drives out good money." An essential reason for the so-called dollar shortage in many European countries is that there has been a flood of bad local money, and this bad money has driven the good money under cover into Switzerland, the United States, and elsewhere.

Bad money not only drives out good money but drives out goods. Secretary Marshall in his Harvard address called attention to the unwillingness of farmers in many European countries to sell their produce for doubtful currencies, thus accentuating shortage of food. The situation cannot be corrected just by supplying more dollars, to be hoarded in their turn, but only by turning the bad money into good money. That means taking the well recognized steps to monetary stability--balancing the budget, reducing the excess money supply, increasing production, and fixing realistic exchange rates.

The effectiveness of a vigorous stabilization program has been indicated by recent experience in Belgium, where such action, in combination with other factors, has resulted in increased production and trade.

The report of the Paris Committee recognizes this principle when it lists as the second point in its program "The creation and maintenance of internal financial stability as an essential condition for securing the full use of Europe's productive and financial resources." The questions which have arisen have related not to this principle, but to the timing and method of its application. Some students have suggested that currency stabilization, which has as its aim restoring the balance between the volume of money and the volume of goods, cannot be effective until production has increased to a higher level. While currency stabilization is easier when production is ample, the answer to this proposal at the present time is first that production has already increased substantially throughout most of Europe, and second that the currency disorganization is at present so great in France, Italy, and Germany that it is a blighting handicap on production itself.

This Committee is of the opinion that currency stabilization is an essential immediate step without which further aid from this country will be wasteful and ineffective.

B. Methods of Financing American Aid.

Fortunately this country can draw upon a substantial body of experience and well developed mechanisms in launching the Marshall program of aid to Europe. The CEEC in its Paris report recognizes four types of financial aid which may be distinguished from each other not only as to the character of the aid, but as to the method of financing. Classified by their purposes, the distinction among these four types has already been recognized in the grants and credits already extended by the United States, as summarized in the table on the following page.

1. Food, Fuel, and Fertilizer. The first type of aid is to meet hunger and cold. It is the relief of human suffering and is a necessary basis for any program of rehabilitation. It now seems clear that the amount of dollars which may be spent in this area this winter is limited by what foods will be available, for the best that America can do will fail to satisfy all of Europe's needs.

Looking ahead, it is also evident that we cannot decide for four years ahead just what the annual expenditures will be, for we do not know in advance either how much Europe will need or how much America can send. The reasonable way to proceed is to make annual appropriations to cover the cost of food, fuel, and fertilizer. The normal time to make these appropriations would be in the Spring of the year when some early estimates are possible of the availabilities abroad and here, subject to later revision when the facts are clearer. At the present time an appropriation for the balance of this fiscal year will correspond, fortunately, with the present crop year. But next Spring it should be possible to determine an appropriation for the fiscal year 1948-49.

A further advantage of annual appropriations is that they provide an opportunity for the American Congress to review the progress that European countries have made in developing their own resources. Appropriations for these purposes should contemplate a reduction year by year in the amount required, subject of course to the vagaries of nature.

POTENTIAL GROSS SUPPLY OF DOLLARS UNDER EXISTING LOAN AND GIFT PROGRAMS

(In millions of dollars)

	Available or Potentially Available	Funds drawn through July, 1947	Un-utilized
U. S. Government lending			
Export-Import Bank loans	3,500	1,820	1,680(c)
Lend-lease "pipeline" credits	1,500	1,350	150(d)
Surplus property credits	1,150	950	200
Ship sales credits	330	160	170
Loan to United Kingdom	3,750	3,350(a)	400
Monetary Stabilization credits	295	8(b)	287
R.F.C. Loan to the Philippines	70	70	0
	10,595	7,708	2,887
U. S. Government Relief and Special Aid			
U.N.R.R.A.	2,700	2,700	-
Post-U.N.R.R.A.	332	-	332(g)
Relief in occupied areas	1,600	1,000(e)	600(h)
Greek-Turkish aid	400	-	400(i)
Philippine aid program	635	125(f)	510
International Refugee Organization	71	-	71
	5,738	3,825	1,913
International Bank	3,266(j)	250	3,016(l)
International Fund	3,406(k)	86	3,320(l)

(a) Through August 31, 1947; (b) Through March 31, 1947; (c) About $400 of this was already committed to non-European countries by the end of July, 1947; (d) All but $8 or $9 million of this is required to meet unpaid bills for goods already procured; (e) Estimated; (f) $100 million made available in surplus materials; (g) Appropriations for fiscal year ending June 30, 1948, as accepted by Congress and including an allowance for China; (h) More than half of this is earmarked for Asia; (i) Over 60 percent of this is earmarked for military purposes; (j) This is considered to be the probable ceiling on World Bank dollar loans. The Bank has about one half of a billion dollars available to make loans at the present time. In addition, the Bank can sell its own debentures in the American capital market to raise further funds. However, the market will probably not absorb debentures which would carry the total volume of debentures plus initial contributions over the limit of the United States capital and other dollar subscriptions. Although the total authorized lending power of the bank is $8.2 billions in various currencies, dollar loans are the only ones which can be used to purchase materials and equipment in substantial quantities for reconstruction purposes at the present time; (k) United States quota of $2,750 million plus gold paid in by other countries through June 30, 1947; (l) These funds are usable only as specified in the Articles of Agreement under which the International Bank and Monetary Fund were established. The entire amount cannot be made available in the immediate future nor can it be made available solely to Europe.

A second characteristic of aid to Europe of this sort is that it does not provide by itself the means of payment. It is not self-liquidating. To be realistic we must admit that many of the countries of Europe with their other burdens are unlikely to be able to repay in dollars additional loans which might be made for the purpose of providing them with food, coal, and fertilizer. More loans would also stand in the way of effective operation of the International Bank. The Committee therefore believes that appropriations for these purposes should in many cases be grants in aid, and not loans, and suggests a figure of $3.0 to $3.5 billions as being of the appropriate order of magnitude to cover such costs for the first year of the program.

The report of the CEEC financial experts makes a suggestion with respect to American aid which we believe should be made a part of the terms of the grants made for food, fuel, and fertilizer. The suggestion is that the local currency received by any government from its nationals as the result of American assistance should be used to reduce or avoid inflationary borrowing from banks of issue, or for productive purposes. We believe this suggestion is a sound one and should be embodied in definite, binding terms, so that when a European government receiving aid sells the food or fuel to its nationals, the proceeds will not be used for general spending in the government budget, but shall constitute an anti-inflationary force or a direct aid to the development of the productive capacity of the country such as road building. To insure the fulfillment of this purpose it is suggested that each country receiving such grants in aid make quarterly reports as to the uses made of funds received from the sale of these sorts of goods.

It should be added that making a distinction by nature of commodity between grants-in-aid and other assistance will in some cases prove to be anomalous. Switzerland, for example, will be able to pay for all its requirements including food, whereas other countries will find it less easy to repay even their loans for

capital equipment. The agency administering the plan should therefore have the power to deny grant-in-aid status to relief goods when such a step would be appropriate. In spite of such anomalies, the distinction between grants-in-aid and loans will still have to be made, and the judgment by nature of commodity is probably the most useful.

2. Industrial Equipment. The Paris report recognizes that a major part of the industrial equipment called for in the plan, with the exception of mining machinery and agricultural machinery, would be financed by loans from the International Bank. This is exactly the purpose for which the International Bank was established.

The International Bank has a broad charter enabling it to make loans for development and reconstruction when the borrowing country presents a sound program which gives evidence of capacity to repay the loan.

The Bank has unusual qualifications for use as a spearhead for economic reconstruction. It has a staff competent to examine the position of countries and to make sure that funds are wisely used. It is international in character, so that it is not open to the criticism of being solely an American agency. It uses private funds and makes no present call on the United States Government budget. It must consider the reasonable possibility of repayment of its loans, which involves questions of foreign exchange as well as domestic productivity. While the Bank has in theory lending power of $8 billions, the United States cash and guarantee of three billion dollars represents the amount which may reasonably be available within three or four years.

Experience in the past has shown that projects of the sort contemplated here involve a vast amount of technical study and suggests that the number of projects which emerge after these technical studies have been completed is much less than would at first appear probable. It is probable that the present resources of

the Bank will be sufficient to cover loans of this type at least for the early part of the period of the plan. But it is recommended by the Committee that, if the Bank's reserves should prove inadequate, they be supplemented, presumably by an increased United States' subscription. This recommendation is not to be understood as in any way affecting the criteria by which the Bank would determine the kind of loans it should make, or as a suggestion however remote that questionable loans should be undertaken. It is rather to be understood as a recommendation that the Bank should not be deterred by concern as to inadequacy of its reserves from making loans of this type which it would willingly make in the absence of such anxiety. It would be better policy to supplement the Bank's resources than to adopt any other method of operation.

3. Raw Material and Short-Term Projects. In between the requirement for food and fuel and the projects which could be financed by the International Bank there lies a middle area of needs which is not as closely defined or detailed in the report of the Paris Committee. In this area are raw materials, perhaps agricultural machinery, repair parts, and manufactured goods. These are the sorts of things which are necessary for an increase in production, but they are not properly regarded as equipment or suitable for financing under the World Bank. Neither are they properly matters for grants in aid, as are food and fuel.

The United States Export-Import Bank is now financing shipments of cotton to Italy and Germany under such plans. With any improvement in conditions in Europe a substantial amount of the movement of raw material should be financed commercially, and this should reduce the amount which has to be financed under the Marshall Plan. Gradual transfer of this financing to commercial channels should be encouraged.

As a method of financing to accomplish these various purposes the Committee proposes that the United States Export-Import Bank, which is already operating in this field and has the personnel and experience, should be entrusted with

the administration of this part of the program, under general policies to be determined by the Congress of the United States and by and under the direction of the new organization created to administer the program. Since this business is different in its general objectives and prospects of repayment from the present business of the Export-Import Bank, that Bank should set up a special department and be furnished with special funds for this particular function. The exact amount of the funds required is difficult to determine far in advance, but the first year's needs might amount to approximately $2 billions. Funds for this purpose should not be tied, but should be available to spend anywhere and the goods moved in any ships. Purchases from other countries will at times lessen inflationary pressures in the United States.

As a mechanical means for assuring the maximum repayment to the United States, with a minimum of burden on the foreign exchanges, it is suggested that when European governments receive materials under this plan and sell them to their nationals, they deposit the proceeds in local currency in trust accounts either in the central bank of the country or in one of the large commercial banks, under the guarantee of the central bank and government with respect both to the payment in local currency and the guarantee of the gold value of the local currency.

These local currencies should be available, by mutual agreement of the United States and the country concerned only for certain specified purposes and with the undertaking that their expenditure would not constitute a burden on the foreign exchange of that country; that is, was not to be transferred into dollars. The uses for which the funds could be spent would be specified, and would include the purchase of strategic raw materials which the United States desired to stockpile, and which could be obtained either in the country itself or in its dependencies. The purposes would also include expenditures to aid in the production of the strategic raw materials, or other local currency expenditures required by the

United States Government, such as expenditures for its Embassy or representatives, or expenditures for education or cultural purposes such as those specified in the Fulbright Act.

4. Funds for Currency Stabilization. The Paris report suggests that when the countries of Europe undertake stabilization programs they will require some dollars and gold to add to their reserves as assurance for the success of these programs. The Paris Committee indicates that the funds required for this purpose are separate and beyond the other requirements listed, and the amounts are difficult to determine, though it suggests a figure of $3 billions. It may be noted first that $3 billion is four or five times as large as the total amounts required in the '20s for stabilization and is a sum which seems larger than necessary if the European countries take the necessary steps to correct the maladjustments in their internal economies. With the present exchange controls and other restrictions which are exercised, the amount of reserves required for currency stabilization should not be large.

The United States Congress has already appropriated and paid in to the International Monetary Fund $2 3/4 billions, largely out of the country's gold, for the purpose of world currency stabilization. It would not appear reasonable to ask the Congress for a further appropriation for this purpose. The statutes of the International Monetary Fund appear to make its resources available in adequate amount for any country that carries through an effective stabilization program. However, if it is the opinion of the Directors of the Fund that its resources are not so available, the statutes should be revised to make them so. It is, of course, clear that the statutes of the Fund, and in particular the

interpretation placed on the Fund's operation by the American Congress, prohibit the use of the Fund by any country which has not taken adequate steps to place its internal economy in balance, and so would be using the Fund without prospect of repayment. The use must be "temporary," and that surely means that it must be in connection with sound programs which have prospect of placing a country in position to make repayment. A sound currency stabilization plan is certainly a major, if not the principal step in this direction in the countries of Europe.

C. General Comment on Methods of Financing.

It is impossible for anyone to say at the present time exactly what amount of outside help Europe will require for its economic rehabilitation, nor do we know within several billions of dollars the amount of economic aid that Europe will need and that the United States will be in a position to give. The Congress of the United States should not commit itself for large sums years in advance. However, it is essential to give Europe a pledge of our interest in its wellbeing; to give it assurance that its needs for equipment will have thoroughgoing and continuous consideration and assistance, to provide the same facilities in the field of raw material, and set a pattern for dealing with food, fuel, and fertilizer requirements from year to year as the situation clarifies itself. Such a clear indication of our intent should make it possible for the European countries on their part to go forward with the economic changes which are required to bring them to a self-supporting basis, to key up their production, to stabilize their currencies, and set themselves wholeheartedly toward that measure of mutual cooperation, which pursued vigorously for a period of years will bring them all better living standards and greater assurance of peace.

D. Financing Purchases Outside the United States

All the discussion of financing up to this point has been directed to the problem of financing goods supplied from the United States. But financing imports into Europe from other parts of the world is nearly as urgent and is a great deal more complicated. European recovery can be prevented or halted just as effectively by an inability to obtain wheat from Argentina and Canada for example, as it could by a lack of dollars to buy food from the United States. Many of the materials and products which Europe needs most urgently are in short supply here. For these items it is clearly in the interest of the people of the United States that European countries buy a maximum proportion of their imports elsewhere.

A number of the countries which supply Europe with food and raw materials have been generous in extending aid in the last two years. They have shipped goods to Europe in excess of the European exports they received in return. Several of these countries, notably the British Dominions, have covered the trade deficit with grants and loans. Others have accepted blocked European currencies in payment. They have shared with the United States the task of extending assistance for European rehabilitation.

It is to be hoped that they will continue to do so to the best of their ability. However, a number of these countries are beginning themselves to experience serious difficulties. For instance, Canadian imports from the United States are currently (as they regularly were before the war) much greater than their exports to us. At the same time they export more to Europe than they receive in return. The inability of their European customers to pay them in dollars has resulted in a heavy drain on their monetary reserves. Certain of the Latin

American countries are in the same position. Moreover, with a standard of living lower than our own, they do not have a large margin of resources out of which to support extensive aid to Europe.

So far as the Eastern Hemisphere is concerned, no serious problem arises. The European countries as a group expect their exports to the Eastern Hemisphere almost to equal their imports from that area in the first year of the program and they expect their exports to exceed their imports from the Eastern Hemisphere over the whole period. However, the problem is acute in the case of Canada and Latin America.

Even after adjusting European import estimates for the availability of supplies, there is reason to believe that the deficit of the participating countries in their trade with Canada and Latin America will amount to between $1.9 and $2.1 billions in the first year. It is the judgment of the Committee that dollar exchange will have to be made available to the European governments to finance a substantial part of this deficit. The details as to the timing and extent to which dollars should be made available for this purpose ought to be left to the administrator of the agency charged with the execution of the plan, for whom guiding principles on this point should be laid down by the Congress. Such guidance should allow the administrator considerable flexibility as to the proportion of the total sum at his disposal that he spends, or supplies to the European governments, or nations for them to spend in other Western Hemisphere countries. He would, of course, be under all the usual restrictions as to the total amounts to be spent for a particular purpose. It must be emphasized that the imposition of a strict upper limit might well increase the total cost of the program and intensify inflationary pressures in the United States.

E. Relation to the Budget and Inflation.

This country, and in fact the whole world, is in the midst of a great price inflation. Keeping this inflation under control here is important not only for us but for other countries, for the United States today holds the economic key to the civilized world. So it is essential that we pursue policies that are not only generous and helpful in the aid they give other countries, but which are also consistent with economic stability.

Any substantial program of foreign aid is inflationary in its tendency, for the purchase of goods to export distributes purchasing power, but the goods themselves are shipped abroad; so that the amount of goods in this country which people may buy is reduced. In view of this inflationary tendency of foreign aid it is especially necessary that the method of financing should be non-inflationary. The broad principle is that government spending which is paid for by taxes is less inflationary than that paid for by borrowing.

A number of proposals have been made for financing foreign aid by some special sorts of borrowing from the public. They do not stand up under analysis, for the Government is already borrowing from the public through savings bonds and various other issues adapted to different types of buyers about all that the public can buy. Additional borrowing would almost inevitably mean a further increase in bank credit, which is inflationary. The conclusion from this is that the cost to the Government of the foreign aid program must be met out of taxes, not by borrowing. That is, the funds must be provided within a balanced budget. Further, in view of the present inflationary tendencies, it is of great importance that the budget should show better than a balance, and there should be a surplus left over to retire debt.

There is still another reason why we must finance the aid program well within a balanced budget. Other countries as part of this program are undertaking to stabilize their currencies, which will mean balancing budgets and reducing the excess money supply. We ourselves must exercise leadership.

Fortunately under present circumstances this country should be able to meet essential requirements of a European aid program within a balanced budget, leaving something over for debt retirement and tax adjustments. In August the President estimated that the government budget for the current fiscal year ending next June 30 would show a surplus of $4.7 billions. This estimate included expected expenditures of $4.3 billions for international affairs out of appropriations already made, but it included no estimates for additional amounts which might be appropriated under the Marshall program. This budget estimate has proved to be conservative.

Thus it would be possible to add $2.5 billions to the expenditures for foreign aid in the current fiscal year and still leave a substantial surplus, provided that expenditures in other directions are not increased. Such an addition would bring the total estimated expenditure for foreign and international affairs aid in this fiscal year to about $6.8 billions.

Looking beyond the current fiscal year it is of course hazardous to project the level of government receipts as they reflect business activity. Domestic expenditure should show some further reduction as wartime organizations and obligations are liquidated. The requirements for the second full year of aid to CEEC countries should, with any reasonable screening, be less than the first.

Thus the conclusion appears to be justified that with governmental economy at home, and with a continuance of a high level of business activity, we should be able to finance a reasonable foreign aid program well within the limits of a balanced budget.

F. Summary of General Principles for Financing Aid.

From the foregoing it appears clear that additional aid which may be given to Europe under the Marshall Plan should conform to four broad general principles.

First, we must help Europe to help itself, through developing its own resources and opening up the channels of private trade and financing. Confidence in the soundness of currencies is a first essential step, and this in turn means balancing budgets and stopping government borrowing from central banks.

Second, there must be encouragement of private capital to go to work in Europe. In addition to currency stability this means the reduction of endless restrictions and regulations and a freer movement of men and money. It means also setting up the machinery of aid in such a way as to stimulate rather than supplant the normal markets.

Third, a clear distinction should be drawn in methods of financing and administration between emergency relief--the food and fuel program, which should diminish rapidly, will call for annual appropriations, and may well take the form of grants in aid,—and reconstruction,—the more permanent building of recovery. In the field of reconstruction we should emphasize the use of more normal channels, should contemplate loans rather than grants, should use various existing international agencies to the full, and should use the resources of private enterprise.

Fourth, the impact of the program on the United States must be cushioned. While the amounts involved may seem modest compared with out total resources, they are marginal amounts in the economic sense with respect to our

foreign trade, and with respect to the demands on our commodity markets. But it must be kept in mind that these marginal amounts may tip the scale between stability and inflation. Likewise, the agencies which execute the program must adapt their operations from time to time to the condition of our markets, and always have regard to the essential need for economic stability in the United States as a keystone to world recovery.

If these principles are followed rigorously and persistently and with goodwill there is reason to believe that the United States has the means to meet the critical needs of Europe.

VIII. THE ECONOMIC IMPACT ON THE UNITED STATES

A. The Character of the Impact.

The economic effects of a European aid program on the American economy cannot be measured with precision. Under the procedure suggested in this report, the United States, while agreeing to provide European aid, would set a figure only for the first year and fix figures for subsequent years as developing conditions allowed. With no over-all magnitude established, and with future availabilities of many items uncertain, it is not possible to foresee the impact in detail.

It is possible, however, to examine the character of the impact. Such an inquiry may be directed either at the way in which the whole program, as the sum of its aggregates, will affect the United States, or at the way in which shortages of particular commodities will exert their influences.

The first course calls for an investigation of the American foreign trade position, as it has stood recently, and as it might stand if a European aid program were adopted. There is presented on the following pages a table which shows the means used by foreign countries to finance purchases from the United States during the second quarter of 1947, and the means that they will have available in 1948 on the basis of two alternate assumptions.

The first hypothesis supposes that the suggested program of foreign aid is not adopted. Under this assumption total Government aid to all foreign countries in 1948 would be about $1.8 billions for the year if new appropriations for the occupied areas were made for the fiscal year 1949. The second assumption is that sufficient aid will be granted to meet the total deficit indicated in the CEEC report.

As indicated in the table on sources of funds, total expenditures by the CEEC countries in the United States in 1948, under the first assumption,

might be about $4 billions, with expenditures by all countries totaling $12.6 billions. The annual rates for the second quarter of 1947 were, respectively, $7.43 and $21.16 billions.

If aid is extended to meet their full deficit, expenditures by the CEEC countries in the United States might reach $7.3 billions in 1948, while expenditures of other countries might amount to $10.8 billions. The total would be $18.1 billions. This is well below the rate for the second quarter of 1947 and somewhat below the estimated rate for the whole year.

The difference of $4.2 billions between the $7.5 billions of financing available to CEEC countries under the second assumption, and the increase of $3.3 billions in their expenditures in the United States under the same assumption may be explained as follows:

1. Even under the first assumption, the CEEC countries are presumed to use $2.4 billions from the United States, the International Bank and Fund, and their own resources. (This sum is included in the $7.5 billions under the second assumption.)

2. The rest of the $4.2 billions, which amounts to $1.8 billions, represents balance of payments deficits between CEEC countries and the rest of the world. It must be met out of gold, dollars, other assets or United States aid if essential commodities are to be procured in the required volume outside of the United States.

As a result of reductions proposed in the present report, spending by CEEC countries would be reduced by about $1 to $1.5 billions, and re-spending of dollars received from CEEC sources by other countries would be reduced $.25 billions. Thus, total expenditures in the United States under assumption 2, would be reduced from $18.1 billions to about $16.5 to $17 billions. Thus, if

SOURCES OF FUNDS USED FOR PAYMENTS TO THE UNITED STATES
SECOND QUARTER 1947 AND ESTIMATES FOR 1948
(Billions of dollars)

	Second quarter 1947 at annual rate			Estimate for 1948 if no assistance is granted under Marshall Plan			Estimate for 1948 if full trade deficit of CEEC countries is financed		
	Conference plan countries	Other countries	Total	Conference plan countries	Other countries	Total	Conference plan countries	Other countries	Total
United States imports of goods and services, including private remittances	1.81	6.97	8.78	1.6 a/	6.6	8.2	1.6 a/	6.6	8.2
U. S. Gov. loans and aid	5.76	1.48	7.24	.9	.9	1.8		.9	
United States Private investments, net b/	-0.16	0.84	0.68	--	-.1	-.1		--	
Dollars provided by World Bank and Fund	0.59	--	0.59	.4	.2	.6	7.5	.3	9.9
Liquidation of foreign dollar assets, including newly mined gold	1.93	2.74	4.67	1.1	1.0 c/	2.1		1.2 c/	
Less: Dollars paid to other areas	-2.20	--	-2.20	--	--	--	-1.8 d/	--	-1.8
Plus: Dollars received from conference plan countries	--	/2.20	/2.20	--	--	--	--	/1.8	/1.8
Errors and omissions	-0.30	-0.50	-0.80						
Total dollars spent in United States for goods and services, income on investments, and amortization of United States Government loans	7.43	13.73	21.16	4.0	8.6	12.6	7.3	10.8	18.1

a/ Excluding imports the payment for which is assumed not to become available to the monetary authorities of the exporting countries. b/ Net of repayments of principal on loans.
c/ Official and private assets, i.e. net of any increases in private dollar holdings.
d/ Including payment of the deficit of the dependent territories of 0.26 billion dollars.

DOLLAR EXCHANGE AND DIRECT AID UTILIZED BY FOREIGN COUNTRIES,
SECOND QUARTER 1947 AND ESTIMATES FOR 1948 - CONTINUED

(Billions of dollars)

	Second quarter 1947 at annual rate			1948 Assumption I (conference plan rejected)			1948 Assumption II (conference plan accepted)		
	Conference plan countries	Other countries	Total	Conference plan countries	Other countries	Total	Conference plan countries	Other countries	Total
Expenditures for:									
Earnings of U. S. investments abroad	0.07	0.85	0.92	0.1	0.6	0.7	0.1	0.8	0.9
Repayments on government loans	0.09	0.01	0.10	0.2	0.0	0.2	0.2	0.0	0.2
Services	1.05	1.67	2.72	0.5	1.1	1.6	0.9	1.3	2.2
Goods	6.22	11.20	17.42	3.2	6.9	10.1	b)6.1	8.7	14.8
Total expenditures in U. S.	7.43	13.73	21.16	4.0	8.6	12.6	b)7.3	10.8	18.1

a) Including payment of the deficit of the dependent territories of 0.26 billion dollars.
b) Including private remittances in kind of 0.2 billion dollars.

the foreign aid program proposed by the Committee is granted, total exports will be some $4 billions below the annual rate of the second quarter of 1947, and probably some $2 billions below the average for 1947. If the impact of an aid program may be measured by the aggregate dollar magnitude, it would be less under the program proposed in this report than the pressure which results from the present rate of exports.

In any case, over-all aggregate figures are not of primary importance in gauging the impact of the program upon the American economy. It is of interest to know that the aggregate productive capacity of the United States appears ample, and that the goods distributed in Europe would constitute but a small percentage of the aggregate production of the United States. It is useful to know that net exports over the next four years would presumably be considerably less than in 1946 and 1947. But such computations shed little light upon the real effects of the aid program upon the American economy.

The real effects of the program arise out of special situations. If the American economy is pinched at certain spots or sectors, this may lead to serious repercussions throughout the entire economic structure. Even though the total sum of money spent for purchase in the United States of scarce commodities is small relative to the national income, its expenditure can set off a chain of inflationary reactions. In the case of foodstuffs and other commodities the prices of which are highly sensitive to changes in supply and demand, purchases for export could have a marked effect on the cost of living and set off an upward spiral of costs and prices. In the case of a basic material such as steel,

the inflationary impact may be felt in the form of pervading scarcities throughout the industrial structure.

Of all the commodities considered in this report, the one which is scarcest, and the one which represents the largest single portion of the foreign-aid request, is food. According to one view the persistence of high food prices since the war has been due chiefly to domestic demand, and the influence of food exports has been minor and secondary. The Committee believes that this opinion overlooks the importance of marginal demands, and that it is the extra food withdrawn from the domestic supply by exports which has made the real difference. Through 1946 and the first half of 1947 the continuance of large foreign shipments served to prevent the anticipated decline in agricultural prices, while the recent rise in foreign requirements, coupled with short supplies, has skyrocketed the food market.

A sharp rise in the price of food has serious repercussions throughout the economic system. Food is the most important item in the family budget, and because purchases are made daily, rising prices bring quick and insistent demands for compensating adjustments in wages. Such wage increases, resulting largely from rises in family food costs, have been granted freely in the past in order to avoid work stoppages which are still more expensive. These wage adjustments have led to advances in prices of industrial products. If further sharp advances in food prices occur, another turn in the wage-price spiral may be expected.

Another upswing in wages might benefit some groups of workers. But many others, especially salaried workers of various classes, would suffer.

The impact in this quarter, then, is clear. The billions of dollars which would be expended for foodstuffs under the plan would, of themselves, have no serious effect on the economy. But the withdrawal from American markets of the food which they would purchase would exert a seriously inflationary effect.

The fertilizer situation is of course directly related to the food production problem. American agriculture would readily absorb the full output of the fertilizer industry, and increased quantities are needed if we are to render maximum aid to Europe. But, on the other hand, European agriculture stands in even greater need of additional fertilizers. It is the view of this Committee that sound policy dictates a substantial allocation of our nitrogen supply to Europe next season. Even if this means smaller agricultural production here, it would, on balance, mean a gain in the over-all food situation.

The cotton situation is analogous to that of food, though not so important. The supply of raw cotton is not adequate to meet both foreign and domestic requirements this year; hence the rise in price may be considerable. It is possible also that allocations of cotton to meet foreign requirements might materially restrict the supply of cotton fabrics available for domestic consumption. Since the price of cotton textiles is closely linked with the price of raw cotton, and since cotton goods are an important item in the family budget,

the rising price of raw cotton will directly contribute to the pressure for compensating wage adjustments to meet the rising cost of living.

The case of coal is intermediate between that of food, in which the impact is directly on prices, and that of steel, where the shortages caused by exports would retard industry.

The current level of coal production is high enough to make possible the required shipments to Europe without leaving deficiencies here. Except for certain high-grade varieties, prices do not appear to have been much increased by the large foreign demands. It is of note also that after the first year European requirements should steadily decline.

The steel problem is one of great complexity and difficulty. Notwithstanding the expected increase in steel production capacity in 1948, the supply will not be sufficient to meet over-all requirements. The supply of certain kinds of steel has been far from adequate during the present year, and this situation may be expected to continue. A greater allocation of steel to meet foreign requirements would thus restrict the possibility of expanding United States production in such important fields as farm machinery, automobiles and building materials, not to mention a host of lesser products made from steel.

A special difficulty arises from the fact that Europe requests chiefly scrap and semi-finished products, and these we cannot furnish without curtailing our steel production. It is the Committee's view that finished and limited quantities of semi-finished products can be supplied without serious effects upon our economy.

It is not expected, however, that the price of steel will be greatly affected by foreign requirements. Additional allocations would presumably be met from two principal sources: (1) shifts from other export markets to Europe, and (2) increased production in the United States. The over-all demand and supply situation would thus not be greatly different from what it is at present. Moreover, in the case of steel, prices are more largely determined by the general level of wages and other costs than by fluctuations in market demand and supply. Accordingly, the repercussions of European steel requirements upon the American economy as a whole will be less serious than those arising from the food situation.

Specific labor shortages are likely to arise in some communities due to an expanded demand for particular commodities. But our wartime experience demonstrated that we could expand the labor force beyond its normal limits if necessary. The problem, however, would become increasingly difficult.

The total picture of the foreign aid program's impact on the domestic economy makes it clear that we will have to make some sacrifices if we agree to carry out such a plan. Without attempting to disguise the fact that such sacrifices will be called for, we should examine the ways in which we can minimize them, mitigate their effects, and spread the burden equally among the whole people.

There are many measures which would dampen the domestic impact of a European aid program, and make exports available in the required volume. This Committee cannot undertake to plan such measures, or even to specify what control powers should be made available to the executive agencies.

The Committee believes however that the responsible agencies will require extension of certain authority based on existing legislation which will soon expire, such as export licensing authority, and authority to issue priorities for export orders and to expedite shipments. The appropriate agencies should recommend to the President at once partial restoration of those limited war powers which they believe to be necessary in order to carry out an economic assistance program with minimum adverse effects upon the domestic economy. At the same time each agency should also start to work out the details of the specific administrative controls for which they request authority.

Foreign demand for particularly scarce items has been reduced during 1947 and must continue to be reduced by export controls. These controls serve the double function of protecting the essential requirements of the domestic economy against undue diversion of critical resources out of the country and securing equitable distribution of scarce commodities among the various foreign purchasers. At the present time, the Department of Commerce administers a limited program of export controls. It is imperative that the authority for export controls be continued as long as any substantial economic assistance is being extended to foreign countries. It is equally imperative that sufficient appropriations be made to permit expansion and improvement of export controls so that they can be used to allocate supplies of all critical items more effectively among competing claimants.

The control of foreign demand is one side of the problem, but the other and more difficult side is that of devising means to make available for export goods that are in short supply, by reducing domestic demand or otherwise. Voluntary measures to reduce demand are the easiest to put into effect and should be relied on wherever they are effective. If and where they are not, the Government will probably require the authority to set priorities for the purpose of insuring the availability for export of limited amounts of the most critically needed

items. It might also have to issue limited conservation orders, to control the consumption of critical materials, such as those still in effect for tin. Especially in the field of food and agricultural commodities it might be necessary to use the device of requiring that limited quantities be "set aside" for export. Any actions of the sort here instanced or contemplated would operate at the producer level and their effects would be felt only indirectly by consumers. Such devices would almost certainly be adequate to enable the foreign aid program to be carried out and they would help to dampen its domestic effect upon particular markets for particular goods.

It must be emphasized that these suggestions are made in connection only with the foreign aid program and not with the broad problem of inflation. The Committee is convinced that inflation is a serious current threat to the stability of the American economy. But any consideration of a program to control inflation would have been beyond its competence and its terms of reference.

IX. THE ADMINISTRATION OF A EUROPEAN RECOVERY PROGRAM

A. The Importance and Nature of Administration.

The administration of any plan of European economic assistance will be vital to its success. A strong and flexible administrative organization will be essential because the execution of such a plan will involve much more than the mere efficient putting into effect of a fully developed program.

The construction of a detailed program is impossible at the present time. The policies and the over-all limits can be established now. But the innumerable operating decisions which will have to be made in the course of carrying out the plan cannot be reached in advance. It would be obviously impossible to decide now, as a single example, exactly how much grain may be needed in France or in Belgium in 1950, how much will be available from the United States and how much from other sources, and how it should be shipped. Future decisions on these and a great number of similar questions will depend on a variety of interrelated factors which cannot now be accurately forecast. In order to get the maximum benefits from a plan with the minimum detriment to the United States economy, no attempt should be made, either by the Administration or the Congress, to prejudge the operating decisions which will have to be made, and probably often revised, during the life of the program. It is with this conviction that the Committee has, in numerous places throughout the preceding parts of this report, assigned to an administrator of the plan what have seemed to the Committee to be clear operating problems.

It is both possible and necessary, however, to make the over-all decisions as to general policies and limits, which will define the continuing character of the program, permit the participating countries to make their plans, and enable both America and Europe to attain the objectives set forth in the Paris report.

The Committee does not oppose the setting of over-all limits on assistance given under the plan, to the extent that such limits can be set

consistently with annual appropriations. On the contrary, such limits must be determined in general terms, and must not be exceeded without the consent of the Congress. But the Committee insists on the distinction between general over-all limits on United States' assistance limitations concerning specific needs of a particular country at any given time.

The need for flexibility makes it imperative that the attention of the Administration and the Congress be directed to: (1) the functions which are essential to the plan; (2) the basic principles and policies which should be followed; and (3) the establishment of a strong administrative organization to perform its functions in accordance with the policies and principles laid down for its guidance.

To achieve continuity and flexibility, it is imperative that the plan be plainly carried out in a non-partisan manner and in the best interests of the country as a whole. If these recommendations for a flexible framework and for a grant of power to make major operating decisions are adopted, the need to secure and retain the support and confidence of the country becomes especially important.

This raises the question of the relations of the Congress to the administration of the plan. Since this is a matter peculiarly within the jurisdiction of the Congress, it is not appropriate for the Committee to make specific recommendations. It nevertheless wishes to stress its belief that the Congress should have close relations with the administration of the plan; this might be accomplished through existing Congressional committees or by a special joint committee of the kind created under the Atomic Energy Act, or in some other fashion. Such a relationship is important to the success of the plan, both because it would keep Congress in closer touch with all developments, and because it would give the entire country greater confidence in the manner of the plan's execution.

B. The Functions of Administration.

Many of the functions which will have to be performed are discussed at length in other parts of this report, particularly in the several recommendations as to the principles and policies which should be followed. The problems are summarized here only as a background for a discussion of the administrative aspects of the plan:

1. Evolving a Specific Program. It will be necessary to translate the over-all plan into a program of particular items required for specific purposes on fixed dates. This should be done only within the general limits and policies established at the start of the plan. But, while it is possible now to make a very general decision that the United States can wisely and safely supply certain quantities of goods needed for European recovery, it will be necessary constantly to review the over-all estimates, and also to make certain that furnishing a particular item or class of items within the total estimate will likewise be safe and wise for us and necessary for Europe. At least three different methods of handling this problem are likely to develop.

In the case of bulk items such as wheat, coal, and fertilizer, the participating countries may develop quarterly or annual programs based on the amounts determined to be available in the United States or elsewhere. These programs would be considered, modified if necessary, and then presented to the allocation authorities to cover the indicated period. Such commodities are now being programmed successfully by international organizations, and these arrangements should be continued. But if the existing international organizations should at any time in the future prove to be unsuccessful, similar organizations consisting of the participating countries and the United States should be formed.

In the case of scarce equipment made for a particular purpose, it will be necessary specifically to examine the need for the items, the effect on United States users of similar equipment, the ability of producers to supply them, and the financial and general effects of the transaction.

In the case of items not in short supply in the United States, consideration may be limited to the availability of funds for the purchase, the effect of the transaction on foreign exchange, and related problems. As the volume of assistance diminishes with growing European recovery, less and less detailed work will probably be required.

2. Procuring the Goods. Approved items will have to be moved to the participating countries. In the case of many commodities this will involve only making funds available to the prospective purchaser, either by direct grant, by direct loan or by arrangements for financing through other agencies such as the International Bank or the Export-Import Bank. Government procurement should be used as little as possible, though in some cases it may be necessary and the authority for the Government to buy directly should therefore be provided. The participating countries should be urged to use private means of procurement as much as possible. In addition to financing purchases, other problems may arise when the needed commodity is scarce. In such cases purchases may have to be coordinated to prevent undue disturbance of the United States economy, particularly in the form of increases in price. Export controls, priorities, and allocation powers may be needed to lessen the adverse effect on the domestic economy of supplying the items, and to expedite the program.

3. Relating the Program to Foreign Policy. It will be necessary to coordinate the foreign economic policies of the United States and of the participating countries with the plan. One of the fundamental purposes of the plan, for example, is to aid in stabilizing the currencies of the participating countries and in solving their foreign exchange problems, thus bringing about freer convertibility of currencies. These and other related ends may require coordination of import and export controls to obtain imports of needed commodities or to dispose of surpluses of exportable commodities to participating or non-participating countries. Domestic fiscal and monetary arrangements, such as the establishment of

adequate reserves, may also be involved. While many of these issues are being handled by the International Fund and other existing international organizations, and while others are currently dealt with by the State Department, they acquire new importance in connection with an integrated recovery program, and the way in which they are handled must be coordinated with the administration of the plan.

4. Following the Program Abroad. It will be necessary to keep in touch with the participating countries and their continuing central organization in order to get information enabling the American authorities to sponsor the requests for materials, to satisfy the United States that the assistance supplied is being put to the use for which it was intended, and to see whether production goals and financial goals such as those set forth by the participating countries in the Paris report are being met.

It should be made a condition of continued assistance under the plan that the participating countries take all practicable steps to achieve the production and monetary goals set by the participating countries for themselves in the Paris report. Failure to make genuine efforts to accomplish these results would call for the cessation of further assistance under the program.

Aid from the United States under the plan should not be conditioned on the methods by which the participating countries reach these goals, so long as the methods are consistent with basic democratic principles. Continued adherence to such principles is an essential condition to continued aid under the program, but the Committee does not believe that this condition should extend as far as adherence to any form of economic organization, or should require the abandonment of plans previously adopted in a free and democratic manner which call for a different form of economic organization. While the Committee firmly believes that the American system of competitive free enterprise is the best method of obtaining high productivity, it does not believe that this program should be used as a means of requiring other countries to adopt it. In the judgment of this Committee, the imposition of such conditions by the United States would constitute an unwarranted interference with the internal affairs of friendly nations.

C. The Execution of the Administrative Functions.

In order to execute the functions indicated above, and to make the decisions required by the operation of the plan, the Committee makes the following recommendations for organizational framework:

1. The Establishment of an Operating Agency. The Committee recommends that a new organization be set up in the United States Government to administer the program of European economic assistance. This recommendation is made partly because a new organization could be directed solely to the purpose of carrying out the program, without being influenced or hampered by different purposes. In addition, the Committee feels strongly that the program is of major importance, and should not, in fact or in appearance, take the form of an added duty imposed upon an already busy official or group of officials. On the contrary, the Committee feels that the position of the head of the organization in the Government, as well as the powers and form of the organization, should be such as to make the job attractive to the most capable men in the United States. The head of the organization should be appointed by the President and confirmed by the Senate.

This new organization will be primarily performing an operating job. Experience has shown that such a task cannot be done effectively by a commission or committee. Accordingly the Committee recommends that the operations of the organization should be entirely under the control of its own head. Requiring him to get the approval of a board or committee before making specific operating decisions would make it almost impossible to carry out the program, and would also make it doubtful whether a capable man could be found to administer it.

In a program of the kind proposed there will be many questions of broad policy to be determined, within the framework laid down by the Congress. These questions of policy will involve the foreign policy of the United States, and domestic policies with respect to agricultural and fiscal matters, prices, and domestic supplies of commodities. These policy questions are of vital importance to other Government departments, particularly the State Department.

In order that policy questions may be considered and decided with full knowledge of the factors involved and the results which may be realized, the Committee recommends that a board of directors be established for the purpose of making broad policy decisions. The heads of the departments interested in and affected by the program should be members of this board, and consideration should be given to the inclusion of public members as well. The head of the new organization should be chairman of this board. The functions of this board should be limited to decisions on broad policy questions; the board should not take part in the actual operations or the operating decisions of the new organization.

An advisory group should also be created consisting of representatives of the public, business, agriculture, and labor, to consult with and advise the head of the new organization. This group might be similar to the one which served the Office of War Mobilization and Reconversion. It would bring to the new organization the views of large segments of the country. It would also assist in maintaining public confidence that the program was being carried on in a nonpartisan manner and in the best interests of the country as a whole.

In order to carry out the functions which organization should exercise, the utmost flexibility and the minimum of red tape are vital. The new organization, in its housekeeping arrangements, should be free from the restrictions applicable to permanent Government agencies. For example, it should be able to hire and discharge employees without regard to the normal Civil Service rules, with wages and safeguards not less favorable than for regular government employees, so that competent employees can be obtained by the organization. It should be able to make, amend and cancel contracts freely. It should have as much freedom as possible from the detailed accounting and budgeting problems of the agencies. The Committee recommends that consideration be given to the use of the corporate form of organization, as a means of accomplishing this flexibility.

2. The Agency's Relations with the Department of State. One of the most important organizational problems is the relation between the Department of State and the new organization. The plan can be successful only if the new organization carries out its functions with full recognition of the fact that the Secretary of State, subject to the direction of the President, has the responsibility for determining the foreign policy of the United States. The European recovery program will, upon its approval by this country, became an important part of the foreign policy of the United States as it relates to the participating countries. By the terms of their proposal the participating countries will undertake where necessary to strengthen their national currencies by means of adequate fiscal and monetary controls, to modify and exercise their import controls, and even to control their trade relations with non-participating countries in such a way as to carry out their commitments under the program. As it develops the program will require close and continuous cooperation among the countries themselves, and with the United States. It may also involve problems concerning blocked local currencies set aside in payment for materials shipped under the program, and arrangements to obtain for stockpiling strategic and critical materials needed in the United States.

These activities will be an important function of the new organization and its head must have authority to act with respect to them. Because of the importance of these activities to the foreign policy of the United States it is vital that the Secretary of State have a leading voice in the deliberations and policies of the new organization. The Committee recommends that the Secretary of State be a member of the board making major policy decisions for the new organization. Furthermore, the new organization must work out effective means for cooperation with the Department of State concerning those major operating questions which have an important bearing on the foreign policy of the United States.

3. The Agency's Operations Abroad. The new agency should have representatives in Europe to deal with the participating countries or any organization set up by them. These representatives would have the job of investigating requests from the participating countries and of screening them to make sure, on the one hand, that they are necessary and, on the other, that they are adequate to accomplish the desired results. The new organization would thus get factual evidence to support its claims in the United States that European needs outweighed the needs of the domestic economy. These representatives should also be in a position to make sure that the materials and supplies sent over are put to proper use and that the commitments of the participating countries are met.

In view of these overseas functions it is essential that the new organization have a chief representative in Europe, reporting directly to the head of the new organization and responsible to him, for consulting with and advising the organization set up by the participating countries and also for the purpose of coordinating the activities of the various local representatives of the organization in the participating countries. As this chief representative's duties will extend to all sixteen of the participating countries and to Western Germany, he cannot be within or under the jurisdiction of any one embassy but he should consult with and keep the Ambassador in each country advised on matters affecting that country. Because of the uncertain nature of the organization which may be set up by the participating countries, it is not possible to make any recommendations as to the degree of responsibility which should be given to this representative. This should be left to the discretion of the head of the new organization, acting with the approval of the board.

The representatives directly assigned to the various countries will have to report to and be under the direct control of the head of the new organization. At least one representative will be needed in each country, as well as such additional assistance as necessary from new employees or employees assigned from the

foreign service. While these staffs might be physically located in the various embassies, and for administrative purposes might be cared for by the embassies, it is important that they should clearly be responsible to the head of the new organization, and should report directly to him and not through the Ambassador or the Department of State. Any foreign service employees assigned to him should be responsible to him. The Ambassador must be informed of all their activities and have access to all their communications, but he should not have the authority to censor or hold up any reports to the new organization in the United States. The Committee is convinced that this direct reporting and clearly centralized authority is vital to the successful operation of the new organization.

On the other hand, it is essential that the unity of American representation in each country should be preserved in the Ambassador and that there should not be two representatives of the United States in the participating countries. The local representatives of the new organization, in addition to investigating and reporting, will undoubtedly find it necessary to discuss various aspects of the program with the participating countries in which they are located. In many cases discussions will be of a technical nature which can best be handled by these local representatives dealing directly with technical officials of the country involved. In other cases they will involve questions of sufficient importance to our foreign policy so that the Ambassador should deal with them himself. In either case, the Ambassador should coordinate and control all these discussions.

4. The Agency's Operations at Home. When the requirements of the participating countries have been checked and screened by the organization, it will have the general responsibility for acquisition and delivery. This will involve first a decision as to whether the items, individually and as a part of the total program, can be wisely and safely exported by the United States. In these recurring decisions, there must be taken into account not only American requirements but also the requirements needed to maintain the economics of other countries and to carry out our foreign policy in other parts of the world.

The Committee feels that these decisions as to the relative needs for particular commodities of the participating countries as a group, as compared with the needs of the United States and as compared with the needs of other foreign countries, should not be placed in the hands of the new organization. The new organization should not be empowered to decide what the total amount of our exports of any commodity should be, or what share of the total amount of exports should go to the participating countries, though it should, of course, be empowered to decide how the amount allocated to the participating countries should be divided among them. While there would be advantages in centralizing the powers completely in one man's hands, these are outweighed, in the Committee's opinion, by the disadvantage of making one man both advocate and judge.

It would be preferable to place these decisions in the hands of agencies able to balance the respective claims impartially and wisely after taking into consideration both the claims of the new organization and the claims of the United States and the rest of the world. The Congress, in the Second Decontrol Act of 1947, has most recently expressed its intentions by delegating these decisions to the Secretary of Commerce, the Secretary of Agriculture having jurisdiction in the first instance over foods. The Committee recommends that any additional allocation or priorities powers which may be granted in connection with the program should likewise be exercised by the Departments and not by the new organization. The new organization should be represented on all Departmental committees which participate in these decisions, but the Departments should have the final decision.

In this connection the Committee feels it desirable to point out that the person making the decisions as to the kind and quantity of items which can be exported wisely and safely, and the needs of the domestic economy, must be advised by representatives of the domestic economy as well as by the new organization and representatives of foreign countries, both within and without the Government. To

the maximum extent practicable these decisions should be made with the advice of carefully chosen advisory committees, representative of domestic producers and consumers of the materials in question.

While the Committee recommends that the decision as between the claims of the participating countries on one hand and the claims of the United States and the rest of the world on the other hand should not be made by the new organization, the Committee recommends that all claims by or for participating countries should be initiated and approved by it, and that it should have power to deny or reduce any allocations made to the participating countries which would conflict with or impede the program. No export priorities or export licenses should be granted for exports to the participating countries except with the approval of the new organization.

Control over the issuance of export licenses to participating countries may be of the greatest importance to the new organization. Where a participating country proposes to use substantial portions of its funds to get from the United States goods not relatively important in the achievement of its promised production and monetary goals, it seems clear that the new organization should have power to prevent this, thereby supplementing the import controls established by the participating country.

5. The Agency's Role in Financing. Since one of the principal functions of the new agency will be to finance or to arrange for the financing of European purchases, its relations with the International Bank for Reconstruction and Development, and with the Export-Import Bank will be extremely important. The Committee therefore recommends that its head be made a member of the National Advisory Council and of the Advisory Board of the Export-Import Bank. The relations between the new agency and American representation on the International Bank must be very close, in view of the Committee's recommendation that expenditures for long-term capital improvements be financed by the Bank to the fullest extent possible under its authority and policy.

The Committee recommends that the Export-Import Bank be empowered to make or to guarantee loans, under the authorization of and directives from the head of the new organization. These loans or guarantees would be either supplemental loans for capital improvements, in the event the International Bank could not finance an entire project, or loans to finance the purchase of raw materials for industrial commodity inventories. The Committee recognizes the difficulties of one organization operating by issuing directives to another, but recommends this arrangement so as to limit the number of lending agencies involved and also to avoid burdening the new organization with the mass of administrative detail which is involved in this sort of lending operation. Amendment to the legislation establishing the Export-Import Bank is necessary to authorize it to engage in this sort of operation and to make it clear that, in such activities, it is acting solely as the agent of the new organization and subject to its directives, and is engaged in an operation entirely distinct from its regular business. If arrangements of this kind are not made, the Committee would recommend that the new organization itself be authorized to make or to guarantee the loans, in which event the facilities and staff of the Export-Import Bank should be made available for its assistance.