

POSTWAR ECONOMIC POLICY AND
PLANNING.

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ECONOMIC RECONSTRUCTION IN EUROPE.

POSTWAR ECONOMIC POLICY AND PLANNING

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OF THE

HOUSE SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING

PURSUANT TO

H. Res. 60

A RESOLUTION AUTHORIZING THE CONTINUATION
OF THE SPECIAL COMMITTEE ON POSTWAR
ECONOMIC POLICY AND PLANNING

ECONOMIC RECONSTRUCTION IN EUROPE



NOVEMBER 12, 1945.—Committed to the Committee of the Whole House
on the State of the Union and ordered to be printed

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ECONOMIC RECONSTRUCTION IN EUROPE

NOVEMBER 12, 1945.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. COLMER, from the Special Committee on Postwar Economic Policy and Planning, submitted the following

REPORT

[Pursuant to H. Res. 60]

INTRODUCTION

Under the authority granted by Congress to the Special Committee of the House of Representatives on Postwar Economic Policy and Planning, that committee designated Messrs. William M. Colmer, Orville Zimmerman, Charles A. Wolverton, Clifford R. Hope, Jesse P. Wolcott, Jay LeFevre, and Sid Simpson to visit Europe and the Middle East to study the postwar economic conditions and the opportunity for foreign trade there and report back to the full committee. The committee was accompanied by Marion B. Folsom, staff director, William Y. Elliott, consultant and James J. Farriss, of the State Department. Eight weeks, beginning August 15, 1945, were spent in visiting the principal countries of Europe and the Middle East where conferences were held with the heads of government, United States representatives, and others in each country visited.

Specifically the purpose of the trip was to determine how far the general principles outlined by the committee in its previous Sixth Report, *The Postwar Foreign Economic Policy of the United States*, can be applied at this time. The following excerpts are quoted from that report:¹

Our foreign trade, though only 5 to 7 percent of our national income, provides us with many essential products and raw materials and affords us a very important market for certain agricultural and manufactured products. Moreover, this trade, which is small compared with our total national volume of business, has a very important impact upon other nations, many of which depend heavily upon international trade.

High levels of output and employment at home, which the committee discussed extensively in its fourth report,² are an essential requirement for expanded world trade. * * *

¹ H. R-pt. 841, 79th Cong., pp. 1, 2

² H. Rept. 1856, 78th Cong.

It is the committee's view that foreign trade can contribute most to the peace and prosperity of both the United States and the rest of the world if it is based upon the principle of balanced expansion. This means that the enormous capacity of our country to produce, to consume, and to save must result, in the postwar period, in extensive exports, extensive imports, and extensive foreign investments. * * *

After the war, extensive foreign investments by the United States will have important benefits both to the United States and to the rest of the world. The scarcity of capital in undeveloped regions and in countries devastated by the war will provide a large opportunity for American investments. If loans are made on a productive basis, both the lending nation and the borrowing nations will benefit from the resulting industrial expansion. The United States will benefit from the stimulus which foreign loans and investments provide for exports and from the returns which we will later receive on our foreign investments. Other countries will benefit from an increase in their productivity made possible by more rapid industrial development. At the same time, the resulting diversification of their economies will make them less sensitive to changes in the world demand for particular commodities. * * *

The immediate establishment of a clear and unequivocal world policy of removing trade barriers will be of enormous assistance to businessmen both at home and abroad in making postwar plans.

The objective of American policy recognized in that report was to increase in every way possible the total trade of the world as a contribution to a stable and enduring peace. It was recognized that the American share in this increased world prosperity would play a very important part in determining the size of the national income of the United States and the extent of employment and production.

Since the sixth report was issued (May 8, 1945), many wayposts have been passed on the road toward fixing postwar economic policy both for the United States and for other nations. Decisions are now being made in every country of the world and in international conferences that will set the pattern for the political and economic life of Europe, Asia, and to a considerable extent the entire globe, for many years to come. It is, therefore, important that Congress should be as fully informed as possible on the actual situations which confront these foreign countries in order to reach sound judgments on the American policies upon which Congress will be asked to pass. The limitations of time between sessions of Congress, the comparative importance, the unusual difficulties surrounding the problems of reconstruction in liberated Europe, occupied Germany, Russia, and the Near East, dictated that the time spent on this survey trip should be spent in these areas.

It is recognized that this is far from a complete story of the total world picture affecting foreign commerce of the United States. The problems of India and the colonial areas have been treated only incidentally in this report as they are affected by blocked sterling (the war debts owed by England to countries tied into the pound sterling as a means of clearing foreign exchange) and by other policies of the controlling imperial countries. The problems of liberated countries in the Far East, including the Philippines, while outside the range of this report, present essentially the same sort of needs for relief, and the use of American capital. The committee feels that a further study of this subject should be made immediately and a report submitted to the Congress. The problems of Latin America are better known and do not present the same kinds of difficulties.

On the European problems, the Potsdam Conference and subsequent negotiations through the Allied Control Council and through the Conference of Foreign Ministers in London, have outlined some

of the conditions set for the economic future of Germany. Many of the political and economic decisions, intimately linked, remain to be made. Trade agreements have been entered into which are almost entirely bilateral, among them such as those made by England with the Argentine and the Scandinavian states, and by Russia with the states of eastern Europe. Treaties of the same character, most of them on this sort of barter basis, are being negotiated or are under discussion by the other states visited. In only one instance did the committee find in its inquiries that there was a customs union—that pending between Holland and Belgium—in which the agreement looked beyond bilateralism to an increase of freedom of markets for all states. The trend of present postwar arrangements, therefore, was entirely contrary to the principles recommended in the previous sixth report of the committee and officially accepted as American policy through many pronouncements of the Department of State.

The committee was interested throughout in seeing to what degree the United States can use the opportunity provided by the requests of most of these states for American loans, for the acquisition of surplus property, as well as the lend-lease settlements still pending, to further the policies advocated in its sixth report for a greater freedom of world trade.

Throughout the studies of the committee the connection of political agreements and economic settlements seemed to demand the coordination of American foreign policy, particularly on its economic side. The committee, therefore, stresses in its report the strengthening of the foreign service of the United States and a proper organization with the responsibility for making and carrying out economic foreign policy.

All through its trip the committee found that the countries visited, almost without exception, were returning to the principles of bilateralism; barter, with the accompanying features of frozen or controlled exchanges; quotas on imports; subsidized exports, and other devices which hamper world trade. This was due, it was recognized, to the present lack of adequate holdings of foreign assets to support large import programs and the inevitable absence of exports that accompanied the destruction of the productive systems or their almost total use for war purposes.

With a view to seeking remedies for these conditions, the committee interviewed the heads of the governments concerned, the finance and commerce ministers, or the heads of the planning agencies. In nearly all countries the foreign ministers were included because of the direct bearing of political obligations on economic policy. It held long discussions on the German economic position under the Allied Control Council both with the political advisers and with Generals Eisenhower, Clay, and members of their staffs.

The committee wishes to acknowledge that it was accorded a most generous allotment of time by Government officials with whom interviews were arranged by the Department of State and our missions abroad, including Prime Minister Attlee and Generalissimo Stalin. In occasional instances the committee reached the conclusion that policies either were not yet formulated or that answers were not forthcoming. In most cases the committee felt that it had access to as much of the facts and trends of policy as were available. It drew freely on the information as to the economic situation and policies

accumulated by every American embassy and legation visited and received special memoranda prepared at the committee's request on the most important subjects under discussion. These supplemented the studies of each country which the Departments of State and Commerce in Washington furnished before the committee's departure.

A large number of interviews with businessmen and some representatives of opposition parties, where these were permitted, supplemented the general impressions formed by the committee on its more official contacts and inquiries. An audience with Pope Pius the XII, and some discussions with the Holy See in Rome, added to the information of the committee.

At the outset of the report the committee feels that it would be useful to give a summary of its conclusions as to principle and later to develop them in more detail.

SUMMARY OF CONCLUSIONS

The study of economic conditions that the committee made in the principal countries of western Europe, Germany, Russia, and the Middle East showed that there are many obstacles to the realization of the principles underlying increased world trade that were incorporated in its sixth report. The committee is convinced that the objectives of American foreign economic policy, as stated in that report, are essentially sound and are capable of realization. It is impressed, however, with the difficulties presented by the exhaustion of Europe and the destruction of the war, and the consequent obstacles to the resumption of the full economic life of a very large part of the civilized world.

OUTLINE OF PROBLEMS STUDIED

A number of short-run problems of an immediate, critical character were common to all European reconstruction both for the liberated countries and for occupied Germany. They were, without attempting to list them in anything more than a rough order of importance: (1) Transportation; (2) fuel and raw materials; (3) communications in general, including waterways and air travel for passengers; (4) the organization and administration of relief needs, especially food and clothing; (5) the establishment of sound banking and financial relationships, dependent upon the resumption of production, and the avoidance of inflation; and (6) loans for reconstruction and rehabilitation purposes to be initiated prior to the ratification and operation of the Bretton Woods agreements.

The committee found that four major problems of a special character presented difficulties which were basic to all the economic issues raised in its previous report and examined during its inquiries in Europe. They were (1) British foreign trade policy, particularly as it was affected by the exchange controls arising from war debts and the consequent barriers to trade in other countries within the area tied to sterling as currency; (2) the peculiar problems raised by the economic organization of Russia and its planning policy, not only in Russia itself but in the occupied zone of Germany and in the countries of eastern Europe; (3) the reconstruction of Germany; and (4) the disposition of American surplus property, including returned lend-lease property.

There was another set of longer-range problems in which the committee studied the possible use of American economic power to increase world trade and obtain a stable peace, the important ones being: (1) loans, (2) United States policy in dealing with state trading monopolies, (3) settlement of lend-lease agreements, and (4) balancing

international payments through other means than gold, such as stock piling of strategic minerals.

Finally, the committee was convinced that there should be a still further integration of American economic foreign policy with foreign policy in general and a reorganization of the administrative agencies for the realization of the objectives of American economic policy.

SHORT-RUN PROBLEMS

The whole character of European recovery and the patterns of world recovery that were to be expected from the effects of the postwar settlements seemed to the committee to depend on the successful solution of certain short-run problems common to all the countries visited. If these were not solved, states might be forced into measures, both political and economic, that would delay the resumption of sound world trading practices. The exhaustion of the war, common to all states, had left them without adequate means of transportation, communication, without sufficient food supplies and consumer goods, fuel, and raw materials to control the creeping paralysis of inflation.

The committee addressed itself in the first instance in every state visited to an understanding of these problems and to an effort to determine how this country could be of assistance in their solution in line with American policy and interests.

1. *Transportation.*—The transportation system of all the liberated countries of Europe, and indeed all those that had taken part in the war was the most serious factor delaying their recovery. While over-all generalizations are dangerous, it could be stated with certainty that the total transportation system of Europe was functioning at considerably less than 50 percent of normal in all branches of transportation except shipping. Shipping, devoted to recovery purposes as distinguished from military employment and occupation uses, was in only a slightly better state. It seemed of critical importance to the committee to get an allocation of all available shipping including American surplus shipping to take advantage of the availability of crews and trained operators in the countries most in need of import tonnage for their recovery. Similarly the railway systems required the first priority for steel, fuel, and production facilities for their repair, maintenance, and the building of new rolling stock and locomotives. In general, the destruction of rolling stock was more serious than the destruction of rail lines. The widespread damage to bridges and overpasses, however, required immediate attention. Inland waterways, carrying as they do a very large percentage of all European traffic were in a similar condition of disuse. Trucking and automotive equipment were in very serious condition of disrepair and entirely inadequate to supplement the other methods of transportation. Available foodstuffs, for example, were not capable of proper distribution under existing circumstances.

Specifically, the committee recommends that the Department of State, in the disposal of surplus transportation equipment, should take into account the priority of needs, without regard to whether the countries were paying or nonpaying in terms of UNRRA, in order to build up the railway, trucking, and highway transportation, inland waterway transportation, and shipping, including coastal shipping, of these nations.

The committee feels that the first claim on the productive facilities of Germany, as well as liberated European countries, should be for the manufacture of transportation equipment of every sort since upon transportation depends most of the distribution problems of food, fuel, etc.

2. *Fuel and raw materials.*—The needs of all European countries, particularly the liberated countries, are primarily for sufficient supplies of fuel, particularly coal, and raw materials to get their industries started once more. Until the wheels of industry can be started, unemployment and lack of production impose heavy burdens on the fiscal structure of every state and increase the need for relief. The production of consumer goods, so badly needed in order to avoid inflation, depends in large part upon the most rapid availability of coal, cotton, wool, minerals, lumber, and the other basic raw materials of industry. In some cases the countries have foreign assets which, if adequately mobilized, would afford a measure of self-help. In others, lack of internal organization appears to be holding back production. Relatively small short-term loans by the Export-Import Bank to enable an immediate financing of purchases abroad would go far toward decreasing the burden of relief and putting all of Europe on a self-sustaining basis. The resumption of the coal exports from the Ruhr, the Saar, and Silesia (the last now under Polish control) is essential. The strengthening of the European Coal Organization and inclusion within it of Poland and Czechoslovakia as active contributing members seems necessary.

3. *Communications.*—The committee regards the freedom of communications, of travel, and movement of persons, as essential to the normal recovery of business and recommends a reduction of the administrative difficulties and an increase of the facilities by air and all other means for this travel.

4. *Organization and administration of relief.*—The basic problem is that of the need for food and other absolute essentials of life, and in wide areas the actual destitution of European populations. As has been the case so many times before the possibility of preventing widespread suffering, if not starvation, depends upon an outpouring of American aid. Clearly our first duty in this regard is to the nations with which we have been allied, and it is important that the countries of western Europe which are not assisted by the United Nations Relief and Rehabilitation Administration be enabled to secure the food supplies needed to maintain the health of their populations through the coming winter and spring. These nations have consistently paid for all that they have received and no doubt desire to continue on that basis as long as they can. The committee believes that the fullest cooperation should be extended to these nations by the United States in meeting the basic problem of food supplies in the critical months that lie immediately ahead. Unless the populations of these nations are sustained by a sufficiency of food to maintain their health, no other measures will be of much avail.

The committee feels that the relief organization for the distribution of food, fuel, clothing, and so forth, should safeguard against possible abuses of relief mentioned below and make fuller utilization of American and other surpluses. The organization of UNRRA and its present functioning requires strengthening. Since the United States is called upon to provide, roughly, 80 percent of the supplies of this

organization, it has two major interests in the efficient functioning of UNRRA:

(a) The delivery of the supplies to those areas where the need is greatest, taking full advantage of the availability of American surplus transportation equipment and retaining control of distribution through transportation in UNRRA hands.

(b) It is of equal interest to the United States to prevent the use of UNRRA supplies for political purposes and to recognize the need of direct control and scrutiny of relief, particularly in eastern Europe.

The continuation of UNRRA aid beyond the next crop year seemed in large part to the committee to depend upon the rapidity with which the liberated countries of Europe and those now receiving UNRRA aid could resume production. Immediate assistance in the form of loans to furnish raw materials, coal, and transportation would go far toward removing the need for continued relief. The committee desires to have the American relief contribution and short-term loans take the form as far as possible of usable foreign surpluses of American and returned lend-lease equipment suitable for UNRRA purposes such as trucks, clothing, shoes, utensils, medical supplies, and other items of general civilian need. The committee sees no necessity for furnishing new equipment at the taxpayers' expense when surplus equipment of this type is already available in Europe and could reach the areas of need even more quickly.

5. *Establishment of sound banking and financial relationships.*—As a pertinent condition to the granting of loans intended to avoid the need for relief and for rehabilitation purposes, the committee feels that the Export-Import Bank and other Government agencies should assure themselves that every effort has been made by the countries concerned to set up a sound banking and financial structure and policy. This would involve as full as possible nationalized control over the foreign assets of the countries seeking loans and their mobilization as the basis for credit. Once this condition is met, the committee is convinced that, in many instances, loans which will aid the immediate production of consumer goods constitute a real remedy against uncontrollable inflation and against the continuing need for relief.

6. *Loans for reconstruction and rehabilitation purposes.*—The committee recommends that the Department of State integrate into American foreign policy in general the active pursuit of the solution of these short-run problems, including relief and the effective mobilization and use of surplus property. It feels that the character of solutions to short-run problems will go far toward determining both the political and economic pattern of Europe and the Middle East for a generation to come. The committee is aware of the fact that there are limitations to which the United States can go in its assistance to foreign countries, and it doubts that it would be to the interest of those countries to have these measures continued over the long run.

SPECIAL PROBLEMS

1. *The United Kingdom.*—The committee appreciates the extremely difficult economic problems which the United Kingdom faces as the result of 6 years of war. Prior to the war, Great Britain met her unfavorable balance of trade by the income received from overseas investments, and the income from shipping, insurance, and other

services. Not only has she been forced to sell a substantial proportion of her investments but new overseas debts to the extent of \$14,000,000,000 were incurred. Her income from shipping and other services has also been greatly reduced. On the other hand, she faces the problem of repairing and replacing homes damaged by the war and of making up the deficit incurred in the war years when no houses were built. The committee was informed that over 200,000 houses have been damaged beyond repair and 3,000,000 others damaged to some extent. Industry is also in need of new machinery and new buildings and must repair or replace those damaged during the war.

Our trade with Great Britain in the past has been greater than with any other single nation. Britain's present position requires assistance to get back on a sound trading basis. To facilitate this recovery is to facilitate our own trade and to promote world stability and recovery.

The committee feels that a solution to the present problems involved in American foreign trade with countries within the so-called sterling area must be worked out as a prime requisite for large-scale loans to Britain. It recognizes the basic need of Britain for exports in order to maintain the living standards of its population. The great burden of loans from Empire and other countries has resulted in sterling balances in London that cannot be liquidated on any short-term basis.

It is clear that under the present conditions of a shortage of foreign exchange and without the availability of large-scale loans, some temporary restrictions on British imports are necessary. These measures, however, should not be continued beyond such time as loans are made available to clear up outstanding difficulties of exchange shortage. The committee feels that while it is natural for England to resort to a continuation of import controls, Government purchases, and quotas, there must be assurance of freeing trade within the shortest possible period. The committee feels that productive loans can be made to England and to the countries to whom England owes large sums of blocked sterling for war debts. The committee is convinced that scaling down and funding of the war debts of Britain to these countries is a preliminary step to any agreement to furnish loans by the United States. All loans, settlements of lend-lease agreements, and surplus property agreements should be made contingent upon the willingness of England to remove the temporary restrictions on imports, with a schedule agreed upon for their timely removal.

The same principle would apply to the removal of exchange controls which have been made necessary in wartime and are continued as a result of war debts in neutral areas and countries of the sterling area. These controls effectively prevent at the present time any large purchases from the United States by countries like India and Egypt. They are supplemented by bilateral agreements presently being negotiated and by a continuation of the Ottawa agreements affording tariff preferences within the Empire. These should also be modified.

2. *Economic relations with the U. S. S. R.*—The economic organization and policies of Russia must be taken into account in considering the possibility of German reconstruction and of opening up eastern Europe to trade. They also determine the stability of many countries surrounding Russia, since the U. S. S. R. is potentially the greatest economic as well as political power covering the continents both of Europe and Asia.

The committee fully recognizes the tremendous destruction in Russia caused by Hitler's armies. At least 40 percent of the industrial capacity of Russia was at one time under German domination, its coal mines in the Don Basin were largely wrecked; Stalingrad, a center of important industrial production, was reduced to ruins. It was entirely natural for Russia to insist upon the restitution of its own industrial system, at the expense of that of Germany, insofar as Germany could be made to pay. The all-out war effort of its people, the loss of many millions of men and the destruction and scattering of many more millions of the civilian population, as well as the "scorched earth" policy that covered large parts of the farming areas of Russia, have reduced the standard of living of the people far below the levels, never high, of prewar Soviet Russia.

There would seem to be a real economic opportunity for extensive trade between the United States and Russia. The committee was informed that Russia needs immediately and during the next few years a wide variety of goods produced by the United States: Locomotives, rolling stock, transportation equipment of all kinds, machine tools, construction equipment, and capital goods in general. On the other hand, Russia can supply the United States with minerals such as manganese, chrome, and asbestos, as well as timber, various wood products, and furs.

Whether these possibilities of trade expansion can be realized for the benefit of both countries depends not only on the possibility of granting productive loans by the United States to Russia but also upon the full cooperation of both countries in respect to working out the economic conditions for repayment of loans and for working together on equal terms. Cooperation with Soviet Russia on equal terms is certainly a basic objective of the foreign policy of the United States and, it seems to the committee, of the other countries visited. If, however, the Russian policy continues to insist upon a high degree of secrecy on fundamental aspects of its economy, including its armament policy, and to prevent the entry into Russia and the free passage within Russian boundaries of technicians and members of the press from the United States and other countries, a barrier exists against real cooperation.

It is the opinion of the committee that a sound relationship between the United States and Russia, which is obviously an important objective, and the granting of loans, must in the nature of the case be dependent upon the satisfactory clarification of the following points:

(a) What is to be the policy of Russia in devoting to armaments the production over which it has control? What portion of Russian production will continue to be devoted to armaments and what relation does this bear to her needs? How does Russian policy in this regard compare with that of other countries?

(b) The full and frank disclosure of Russian statistics and an opportunity to scrutinize the facts upon which they are based with regard to economic production in all parts of Russia.

(c) The fulfillment of Russia's political obligations on the same terms as those of other governments. This includes the withdrawal of Russian occupation forces in accordance with the Potsdam agreements and the Yalta Conference and other agreements.

(d) The disclosure of the terms of the trade treaties made by Russia with the eastern European countries now under Russian occupation and control. Without this information it is impossible

to estimate what should be American policy toward these countries as well as to Russia.

(e) The administration of relief in these areas on nonpolitical lines and in a way that does not permit the siphoning off of supplies to Russia which will have to be replaced by the relief afforded from the United States and UNRRA sources.

(f) The committee feels that the protection of American property, including copyrights, in the countries under Russian control in eastern Europe should be a condition for loans to these countries. In addition, there should be full freedom of entry of reporters and the protection of rights of individuals and nations to distribute books, magazines, papers, periodicals, and movies in these countries. The Department of State has insisted upon the protection of the freedoms guaranteed at the Yalta Conference—freedom of religion, press, and elections. The committee feels that Russia itself should afford adequate opportunities both for diplomatic and uncensored journalistic inquiries and representation within Russia, and should agree to the right of entry of planes such as is accorded freely to Russia by other countries.

3. *Reconstruction of Germany.*—The committee was in full agreement that the destruction of Germany as a war-making country had been achieved from what it saw of the unbelievable ruin created in German cities and centers of production. We were informed that all major cities in Germany had been largely destroyed and that only two cities of any importance (Halle and Heidelberg) had escaped at least 50 percent destruction of their housing. Berlin itself presents a picture of desolation that beggars description—within a 2½-mile radius of the center of the city it is estimated that over 80 percent of the buildings were destroyed. The plight of Germany is a monument to the folly of Hitler and should be convincing evidence for many years to come that the Nazi appeal to might had been answered in kind.

As long as the control of Germany's imports (both of food and strategic materials) and the stripping of her industries for war-making purposes is as thoroughly carried out as is being done in every zone, there can be no possibility of Germany becoming a danger to the peace of the world. This rigid control must be continued. The only foreseeable danger that Germany presents, in the judgment of the committee, after conferences with our military commanders and political representatives, is as a source of infection for the health, economic and social life of all of Europe. This is a real danger if the cities of Germany, both in our own and in other zones, are not maintained at a minimum basis of health for the population.

General Eisenhower's expressed opinion, fully backed by General Montgomery's recent pronouncement, could be summarized in his own simple language to the committee: "We want a lean Germany but not a hungry Germany. A hungry people is a dangerous people." This danger is not from the point of view of war making but of political anarchy and of creating a vacuum in Europe which may be filled with explosive potentialities.

While it is true that some considerable part of the machinery of Germany for war-making purposes was not destroyed by the bombing, steps of an adequate character are being taken to remove all the war-making industries of Germany. In the Russian zone many nonwar factories as well as war-making factories are being dismantled and shipped to Russia.

In the judgment of the committee, a complete stopping of Germany's productive capacity in any zone will impose a severe burden upon the rest of Germany to maintain sufficient production of a peacetime character to prevent widespread disease and unrest in Germany and, as a consequence, in the rest of Europe. The Allied Nations have undertaken the responsibility to prevent serious unrest in their occupied zones. Failure in any respect to meet this responsibility increases and prolongs the necessity for large numbers of American occupying forces beyond normal needs.

The committee is convinced that to strip Germany of the factories necessary for the ordinary industries of Germany would be to impose a burden of relief on the western powers, principally the United States, if widespread starvation and dangerous conditions to the public health are to be avoided in all Europe.

Germany before the war was the most important industrial country of Europe and the largest importer as well as exporter on the Continent. The industries of countries surrounding Germany depended in large measure on Germany for parts, machine tools, and components, as well as on her coal, potash and other fertilizers. To destroy these basic German industries would be to immobilize many other industries dependent upon them. However, the committee believes that the German cartel system, which exercised substantial control over whole areas of production in that country as well as other countries prior to the war, should not be permitted to continue.

The simplest analysis shows the dependence of the industries of all the other countries surrounding Germany upon German raw materials and German manufactures. To go beyond the limits of destroying the war-making power of Germany is to depress the whole standard of living of Europe and, through it, of world recovery. It follows, of course, that our own foreign trade with Europe would suffer in proportion.

4. *Disposal of American surplus property.*—The committee feels that the disposal of American surplus should be made the first requirement for an earmarked portion (as large as possible) of any loans to the countries desiring the acquisition of this surplus. The committee is convinced that the administrative organization, particularly the field force, for both the disposal of surplus property and for its handling is inadequate and should be extended and improved as a protection to the interests of the taxpayers of the United States in the safeguarding and prompt disposal of billions of dollars of property. The clarification of responsibility for surplus disposal, both as to policy and administrative handling, seems to the committee to require immediate action. The committee found that the prompt disposal of surplus property was being held up by failure to determine what was surplus, by the lack of an effective mechanism for handling surpluses as they develop, and by discussions as to the method of payment. Speedy disposal is obviously in the interest of all concerned.

In connection with the disposal of American surplus property abroad, the committee feels that the economic policy of the United States should be to insist upon the return to United States ownership of as much nonexpended lend-lease material as possible as a part of American surpluses or the payment for such amounts on the same terms as other American surpluses.

The committee specifically recommends further that the largest possible proportion of American contributions to UNRRA should take the form of surplus, including salvage items, of a character useful for UNRRA relief.

LONGER-RANGE PROBLEMS

There are four principal long-run problems:

1. *An integration of American loan policy.*—As a first instance, it is necessary to protect against the granting of large-scale loans by the Export-Import Bank or any other governmental department or agency for long-range reconstruction before the nations requesting loans have shown a willingness to make available and to utilize fully the credits, resources, and stabilizing influences of the International Monetary Fund and the International Bank for Reconstruction and Development referred to the United Nations under the Bretton Woods agreements. The committee recommends that the funds of the Export-Import Bank should not be further increased beyond the present \$3,500,000,000 already authorized until the Bretton Woods agreements have gone into effect.

The committee suggests that since the advantages afforded by United States loans and other settlements are our best bargaining asset in securing political and economic concessions in the interest of world stability, there should be a total integration of economic policy to this end. And particularly it is concerned to see that the rights of property of United States firms are adequately protected. The export of our best means of spreading American ideas as well as distributing American goods in nations desiring and in need of them, namely, the books, magazines, papers, and movies of this country, should be freely promoted. Furthermore, the free access of our press to all sources of information is clearly called for if real understanding is to be developed.

2. *American policies in dealing with state trading monopolies.*—While the committee recognizes the necessity of dealing through Amtorg, the Russian state trading monopoly, it feels that direct contacts between American business firms and Russian industries should be established where possible. It does not feel that completely controlled state trading for countries under Russian occupation in eastern Europe is a necessity. The protection of American property rights in these countries and a demand for establishing freer channels of individual trade should be objectives of American policy. This reasoning applies even more strongly to our dealings with the countries of western Europe.

3. *Settlement of lend-lease.*—The committee specifically urges upon the Department of State the fulfillment of the statutory intent of the Lend-Lease Act and of the agreements concluded under it:

(a) For freeing the channels of world trade in the postwar settlements before any writing off of lend-lease;

(b) For the return of materials and property not expended in carrying out the war;

(c) The repayment by settlements in rights to control of raw materials, bases, aviation rights, sites and buildings for embassies, and other tangible and intangible assets for some part of the lend-lease aid afforded by this country.

4. *International financial stability.*—The committee suggests that the problem of balancing American exports by imports will for several

years after the war require a careful reexamination of the willingness to accept gold in unlimited amounts from such systems as Russia on a purely bilateral basis. The absence of available imports from the rest of the world should not, in the judgment of the committee, lead to the repetition of the experience of the twenties and thirties when the United States accumulated much of the world's gold supplies, acquiring overbalanced holdings of this metal. If Russia's ability to produce gold is capable of large expansion, the question is raised as to what percentage of this gold should be taken into the United States in payment for future loans.

The committee suggests a thorough examination of the possibilities of accepting other minerals, capable of being cheaply and indefinitely stored, from the surplus of world production over and above the needs of commercial imports. Protection of domestic mining interests and sterilization of stocks would be needed. This method of repayment of American loans could afford valuable assistance to the nations which have large mineral resources and would build up our own depleted reserves or stock piles of those minerals which we do not ourselves produce.

ORGANIZATION FOR ECONOMIC FOREIGN POLICY

Finally, the committee recommends that there should be a complete reorganization of American economic foreign policy under the capable leadership of the Department of State. It feels that adequate means for implementing and promoting this foreign policy could be achieved by the creation of an Under Secretary of State for Foreign Economic Policy. It approves the allocation of policy formulation for the disposal of surplus property to the Department of State and urges that the economic information services and much of the present work of the Foreign Economic Administration, as well as the Export-Import Bank, should be brought under the same administrative organization.

The committee calls the attention of Congress, as well as the Administration, to the need for expanding the size of the foreign service and improving the attractiveness of careers in the foreign service, particularly in its economic and information branches. It feels that the allowances and opportunities for promotion in this service should be made commensurate with the scale afforded by the best foreign services of other nations and with the tremendous stake that America will have in the adequacy of the foreign service to promote and safeguard national interests abroad.

International Economic Conference.—The committee, as its final recommendation on economic policy dealing with the increase of world trade, wishes to repeat the recommendation contained in the sixth report:

In view of the importance of reducing the barriers to international trade throughout the world, the committee recommends that an international conference be called as soon as practicable to consider reduction or elimination of trade restrictions. The conference should consider not only reduction of tariffs, but also such trade controls as import quotas, export subsidies, exchange controls and other forms of state interference with the movement of goods between countries. It is not to be expected, of course, that all of the complex problems connected with a general reduction of trade barriers can be solved in a single international convention. The aim of the conference should be simply agreement

upon a general policy of reduced barriers. At the same time, a permanent economic organization should be set up to deal with the specific problems of individual countries and commodities. The principal advantage of this method of reducing trade barriers is the speed with which a general world policy can be established. By means of an international conference, the broad outlines of a plan to reduce trade barriers can be determined shortly after the war has ended. There are compelling reasons why this should be done.³

The committee welcomes the efforts of the American negotiators currently reported in the press to set up an international trade organization on a permanent basis to work out standards for the protection of world trade. It feels that the initiation of international conventions and treaties for the removal of trade barriers and the protection of foreign-trade interests can be greatly advanced by a permanent organization of an international character and appropriate representation from the interests concerned in every government. Every effort of the American Government should be directed toward encouraging participation in the international trade organization.

The chairman has been authorized to introduce a joint resolution to carry out this recommendation, calling upon the Department of State to take the initiative in convoking an international conference to this end.

The conclusions which emerge from these recommendations may be stated as follows:

1. Immediate relief is necessary to prevent the deterioration of Europe into anarchy, disease, and economic stagnation. This should be granted subject to the definite safeguards outlined above to protect both the interests of the peoples of Europe themselves and the interests of the United States. It should not be continued beyond such time as production can be resumed so that nations may help themselves and pay for their imports.

2. The resumption of production in all the liberated countries and, to a considerable extent, in the occupied regions, depends upon the immediate procurement of raw materials, transportation equipment, food, and fuel for which productive short-term loans offer a better way to recovery than continued relief. The sooner these economies can be aided to recovery, the sounder will be American foreign trade and the less will be the need for relief.

3. Longer-term loans for general reconstruction and recovery of the total economies will also be needed. The committee feels that countries should show good faith in their acceptance of the Bretton Woods agreements, which afford an international source of large-scale capital for these purposes, and that loans granted to them should be subject to the conditions outlined above.

The committee wishes to stress the basic economic fact that truly productive loans are themselves a major contribution to our prosperity and to the stabilization of the world economy.

³ H. Rept. 541, pp. 37-38.

ECONOMIC RECONSTRUCTION IN EUROPE

I. SHORT-RUN PROBLEMS COMMON TO EUROPEAN RECONSTRUCTION

A. TRANSPORTATION

Basic to every problem in Europe, in the opinion of the committee, is the transportation problem. Even where adequate supplies of food are available in farming areas, the lack of transportation left cities on an insufficient ration and prevented the proper distribution of food and the other essentials of life. Coal production, while not enough to meet even the lowest requirements set by the military authorities in the Ruhr and Saar regions of Germany, is continually pressing on transportation facilities. In the opinion of most of the experts with whom the committee talked, coal production could be pushed ahead of the possibility of transportation in the very near future.

As far as could be learned, an even worse transportation problem exists in the zones occupied by Russia and the countries of eastern Europe and indeed Russia itself. The destruction of bridges and railway crossings in all zones of military operations requires a slow process of rebuilding. The same destruction has blocked waterways. The Rhine was not to be cleared on the schedule expected before the middle of October in the stretch from the Ruhr to Basel, with the probability that very little traffic could be handled in the months before winter closed in. All the feeder canals and waterways were in more serious condition and little effort was being made to open them up. Much of the river transport had been sunk or incapacitated.

The highways are in the main in good shape except for the crossings, over streams and similar obstacles. On the other hand, the motor transport of most countries had been almost completely worn out by the war where it had not been taken off by the occupying armies, or destroyed. The absence of suitable trucking and the complete lack of intercity communication for passengers through busses and inter-urban rail lines make normal movement for the civilian population almost impossible.

The remedies for the transportation system are not limited to internal transportation. Shipping is still controlled under the Allied pool, but a number of ships formerly under the Axis flag have not been put back into operation. It was the general complaint of all countries who still possess some shipping that they are not getting their share from the Allied shipping pool and could not make arrangements for the purchase of ships from other countries. Shipbuilding by countries like Britain and Sweden is being pushed. In the meantime, however, the committee counted 80 ships in Hamburg harbor previously under German control, nearly all of which appeared to be seaworthy, tied up either for lack of crews or fuel or because no allocation had been made.

One of the most severe shortages was in coastal shipping. The committee was informed that in the Mediterranean Allied operations had stripped most of the coastal shipping in that area for use in

the Pacific. This left Greece and Italy severely undertonnaged for a type of transportation that handled the bulk movements of some of the most important commodities through the numerous small ports which were normal distribution points. The Baltic is also very short of coastal shipping, partly due to the immobilization and the disabling of shipping which had been under German control.

The committee's recommendations for transportation may be summarized as follows:

1. *Rail transportation.*—It is essential that not only in Germany but in Europe as a whole there should be a central transportation coordinating authority set up with full support from all of the countries including the occupying countries concerned. This is necessary to secure the return of cars passing from one zone to another and to keep an adequate account of the needs for railway equipment. New equipment must also be allocated to the best advantages of the transportation system that had been closely integrated prior to the war and upon which economic recovery in large measure depends. Efforts to get coal from Poland required countries like Sweden and Italy not only to send shipping but to send railway cars.

Unless Europe is to be divided into zones, the accountability for railway rolling stock and locomotives sent from zone to zone requires some central control.

The committee feels that the constitution of the European Central Inland Transport Organization, signed on September 27 by 12 member governments, must have full support by all the governments concerned, including the Allied Control Council. Return by the Allied Control Council in Germany and Austria of identifiable equipment to the owning governments is essential in all transportation equipment. The success of the Inland Transport Organization is on a par as a first necessity to all European recovery with the functioning of the European Coal Organization.

It is further necessary in the judgment of the committee to have new production of railway equipment, particularly of the United States and Great Britain, allocated to meet the most pressing needs. Those countries which have been first in getting their requirements before the combined boards have in general mortgaged the productive facilities for a period so far ahead that it is difficult to see where new equipment could come from for countries which have in many cases equally great needs.¹ It is particularly necessary to take into account the productive facilities of countries like France and Belgium which with some assistance would be able to make a great part of their own rolling stock and locomotives as well as other railway equipment. In the absence of an adequate allocation of existing railway rolling stock and new equipment, countries like Luxembourg are left stagnating, with industries that are fully capable of being resumed, due to the lack of coal which is mined in Luxembourg's own mines within the Ruhr but cannot be brought to the nearby industrial areas.

The Italian situation seems to call for fewer locomotives and rolling stock than is the case in France, Belgium, and probably the eastern

¹ The same unwillingness of European countries to accept available rather than specialized types of equipment delayed the placing of orders on American capacity at a time when the combined boards were urging upon these governments the necessity of placing firm orders in advance. Failure to finance and place firm orders has now resulted in overstraining the facilities at this time.

liberated areas. Nevertheless, a small investment in electric locomotives or perhaps Diesels for temporary use, some of which might come from military surpluses, would permit Italian production to keep pace with the import of raw materials as shipping becomes available.

In general, it might be said that France had recovered less than 50 percent of her normal rail traffic, Belgium about the same figure, Italy about 50 to 60 percent in capacity, and Germany probably not more than 30 to 40 percent in the western zones and a much smaller figure for Germany as an economic whole. The military drain on the use of this equipment for redeployment of troops and for the servicing and provisioning of occupying armies and relief was very heavy but showed prospects of decreasing as the occupying armies were diminished. In this respect a substantial relief might be expected before the winter sets in. There is great need for the production of special types of railway cars, particularly coal cars, tank cars, and passenger equipment. Passenger transportation in nearly all parts of Europe is operating on a 10 to 15 percent basis of normal and sometimes not that.

2. *Waterway transportation.*—In most of the countries of central and northern Europe, waterways normally constitute an unprecedentedly large volume and percent of the bulk traffic moved. A figure between 25 and 30 percent of total volume of traffic moved would not be an exaggeration for France, Germany, and Belgium and a larger figure for Holland.

While great progress had been made in bridging streams, it has proved impossible to afford the time to make bridges through which barge traffic could in all cases pass, and substantial stretches of waterways are blocked for this reason. The committee feels that full Russian support for freedom of passage through all the waterways linking the Rhine Basin and the Danubian Basin as well as the other connections between the Russian and western zones is necessary to the economic reconstruction of Europe. The United States proposals for the adoption of broad principles relating to navigation on the Rhine and Danube, as well as other rivers of international concern, did not meet with success either at Potsdam or the London meeting of the Council of Foreign Ministers. However, steps have recently been taken looking to the reestablishment of the Central Commission of the Rhine, with United States participation. The committee urges upon the Department of State and the occupation authorities continued efforts to accomplish the opening up of waterways from all administrative barriers that increase the natural difficulties encountered through the widespread destruction and loss of equipment.

The committee was told that every effort was being put into clearing the Rhine and other central waterways serving this entire region. The withdrawal of engineering troops to the Pacific has, however, left the Army inadequately provided with specialists to supervise the work. It would seem that a first requirement for the use of German prisoners of war who could in most cases be returned from England or the United States would be for transportation and the production of coal. In the occupying armies it seemed clear to the committee that engineering specialists would be of very great value and were desperately needed.

3. *Highways.*—The road systems of Europe had suffered far less destruction comparatively than any other methods of transportation, so far as the roads themselves were concerned. The magnificent highways of Germany offered an opportunity for making up through heavy trucks some of the deficiencies left by rail and waterway transportation. In the main the same thing was true in the liberated countries.

While fully recognizing the need of the occupying authorities in Germany for retaining an adequate movement of vehicles to take care not only of their own needs but of the responsibilities imposed by the needs of the civilian population, the committee felt that declaring surplus of trucks and the repair of trucks were proceeding far too slowly to meet the grave crisis of transportation in Europe. It is recognized that the withdrawal of Army specialists for maintenance and repair work on the point system has complicated the difficulties of the military authorities. The committee suggests, however, that the disposal of trucks should proceed on the basis of sales of equipment even in bad order, putting the burden on the purchasers to supply the necessary maintenance and repair and making available such spare parts from Army surplus as would facilitate this disposal.

The truck stores in England, if all disposed of through the British Government, would in many cases not serve the most pressing transportation needs. The same observation may be made to some of the truck parks in France. If the State Department is to undertake setting of policy for disposal of trucks and motor vehicles along with other foreign surplus, it is the committee's strong recommendation that a special truck and motor-vehicle disposal division be set up to pool and get moving the Army surpluses into the areas most in need.

The committee recognizes that a disposition on the part of the governments concerned with the purchase of this equipment to insist upon the precise types and to refuse to accept badly used vehicles complicates the picture and in many cases has delayed disposal. It is felt that the disposal of a considerable amount of these trucks through UNRRA allocation would make a more immediate and useful contribution to the recovery of Europe than almost any method of American relief.

4. *Shipping.*—The continuance of the allied shipping pool until the most pressing needs for the redeployment of troops and the maintenance of essential relief supplies have been taken care of is recognized as necessary. On the other hand the committee is convinced that the shipping costs connected with relief are disproportionately high. By no means isolated instances can be cited, such as the delivery of coal to Italy where the cost of a ton of coal on the eastern seaboard of the United States is \$8 and the delivered cost to an Italian port is \$24. An increase of almost 100 percent in cost for other bulk supplies was not unusual in the figures examined. With the decrease in war insurance and in other shipping costs, the committee was unable to understand the nature of these rates. Surplus Liberty ships could be put at the disposal of some of these countries in accordance with an act of Congress. It feels that the acquisition of tonnage of ocean shipping by maritime countries will afford the flexibility in the procurement of raw materials and reduce the import cost to these countries in a way necessary to speed up their recovery and to remove the continuing need for relief.

The committee recognizes a reluctance on the part of some of the countries to take Liberty ships, parallel to the reluctance to take trucks, on the grounds of the unsuitability of certain types for long-range economic operation. Shipping experts consulted in the Scandinavian countries, in Italy and in Greece, however, are prepared to back the acquisition of Liberty ships. The committee feels that strong pressure should be brought to bear to get the disposal of these ships on reasonable terms as an immediate aid to world recovery. Transportation at the present time must be measured in terms of its importance to getting under way the whole economic life of countries rather than the shipping profits over a long period of operation to particular companies. Sale to governments for operation, if necessary, under their own temporary subsidies, should be an alternate American policy.

It suggests that large numbers of surplus smaller craft no longer needed for Pacific operations should be returned to the most badly hit European areas for coastal shipping. Countries like Greece, which has been very largely dependent for bulk movement of cargoes on ships rather than railroads, can be aided by this device more than in any other way. The same recommendations as to method of surplus commodity disposal may be made.

It is suggested that the payment of reparations from Germany should take into account the need for some shipping under German control just as is the case in railway equipment. While it is necessary to see that Germany is not completely stripped of the means of transportation, it is also possible, in the opinion of the committee, to allocate some German shipping by way of reparations to Norway and Denmark and perhaps to Greece.

The committee feels that, as a matter of public relations, it is important to have the peoples of the countries concerned understand that many of the difficulties of getting American surpluses moved arise from the attitude of the special interests in their own countries. It is understandable enough that shipping operators and transportation systems should wish to get the best possible equipment. At a time, however, when shipping costs are so high and when, in instances like that of Greece, passengers pay \$600 to \$700 to get from one part of the country to another, the refusal to accept military surpluses of perfectly serviceable vehicles is in the judgment of the committee a grave disservice to the peoples of Europe by their own representatives. The committee underlines once more the suggestion that loans to these countries should be made contingent on acceptance of American surplus at suitable prices. It feels that this is a most immediate and real aid that can be given to European recovery throughout the transportation field. This should put a stop to the haggling policy which is delaying, more than any other single factor, the proper distribution of vitally needed equipment.

B. COMMUNICATIONS, FREEDOM OF TRAVEL AND MOVEMENT OF PERSONS

The destruction of civilian communications of every type imposes a severe handicap on the resumption of business activities. The committee would recommend that the military installations which have in large measure replaced civilian systems in considerable areas of Europe should be, insofar as is compatible with security and the maintenance of official secrets, left intact to supplement civilian communications systems. This is particularly necessary in terms of

telephonic communications. Again their disposal as surplus should be earmarked as part of loans.

Similar difficulties arise in the movement of persons. Passenger travel by rail will remain for some time so inadequate that it must of necessity be supplemented by bus and plane travel. Surplus Army vehicles can be of great assistance in this matter. The disposal of American transport planes in return for concessions in the way of civil aviation rights and as part of earmarked loans is recommended by the committee. Some of the existing equipment being used by civilian airlines is 15 to 20 years old and is certainly less adequate than even converted Army bombers to say nothing of the large numbers of C-47's and other transport planes that could be made available as surplus. The committee specifically suggests that no such surplus should be made available to a country until full freedom for the entry of American and other foreign planes and for the exchange of civilian aviation rights has been agreed to.

The failure to achieve support from Britain of the American position on the right of air lines to carry traffic from one country to another along the route (with a pick-up of feeder traffic) seems to be a serious handicap to the expansion of American civil aviation. It would likewise restrict the possibility of genuinely international air lines operated by other countries. Britain is asking for a number of important concessions from the United States in connection with lend-lease settlements, loans, etc. In view of this it does not seem reasonable to the committee for Britain to impose an economic barrier which would make very difficult the operation of American services through Europe and the Middle East on a sound economic basis. The announcement of British policy to take over all civil aviation on a nationalized basis is a matter of purely British concern. The United States, however, should not be forced into nationalization or excessive subsidy of its foreign air lines for lack of reciprocal rights which we are willing to afford British air lines as well as to all others. Russia's lack of interest, so far, in entering into an exchange of civil aviation rights also presents a serious barrier to the real internationalization of air traffic and freedom of movement. The Russian barrier to passage of planes over Russia will exclude another large sector of the world's future air lines from general linkage into international systems.

The committee feels that the Department of State should continue to make this a primary objective of American policy and insist upon civil aviation rights for American air lines in return for the concessions which we are affording other nations.

The committee attaches especial importance to the movement of businessmen and journalists. At the present time official priorities are needed on nearly all air lines, and important transactions are precluded by the absence of transportation. Getting passports from our own Government is often as difficult as getting visas from foreign governments; delays of months are experienced.

Included in this freedom of movement must go greater progress in the removal of administrative barriers, censorship, visa difficulties, and other impediments to travel. Failures to grant visas to the most essential travelers hold up many operations. The committee was impressed by the necessity for reinstituting a system like that painfully worked out after the last war for granting so-called "Nansen" passports through the League of Nations for displaced and stateless persons

or political refugees. No provisions appear to exist at the present time for giving passports to any Germans either for travel from occupied zone to occupied zone or outside of Germany for any reasons whatever. It will be necessary to afford ex-enemy nationals some restricted movement if business is to be resumed between Germany and other states. Grave hardship attaches to the condition of many innocent people, and even opponents of the previous enemy regime, unless means can be found to grant passports and visas for their movement within Germany and abroad.

C. FUEL AND RAW MATERIALS

Next to the transportation and communications difficulties of Europe and perhaps on a par in importance is the shortage of coal and other fuels for the resumption of industrial production. France, for example, always had to import at least one-third of its requirements and was in very large measure dependent upon coal from the Ruhr and the Saar areas. Belgium and Holland require special coal from the Ruhr areas and Luxemburg is dependent upon the Ruhr for its whole industrial life. In addition to these sources, the large centers of coal production of Europe were in former German Silesia, now Polish territory, and in Czechoslovakia. In spite of the machinery afforded by this country under lend-lease to improve British production, coal production in England is still far short of the needs for industry and heating plus the necessary bunker exports of coal. The coal problem presents not only the difficulties of securing adequate transportation but of getting miners and skilled operators as well as management. The determination to afford special rations, sometimes two or three times the normal ration, to coal miners requires supplementing by furnishing clothing, shoes, and consumer goods for which the miners were willing to work. The removal of Polish and Russian coal miners from the liberated areas of France and Belgium has further complicated the picture.

While fully recognizing the basic need of French industry and that of other liberated countries for coal, the committee doubts the wisdom of a directive to ship 25 million tons of coal from Germany by April 1946, until the German production has been increased to an amount that will keep the industry and essential transportation of Germany operating on a minimum basis. It suggests that the fulfillment of the directive for shipment of this total amount of coal to France and other liberated areas from Germany should be made contingent upon (a) increased production in these countries themselves, and (b) upon the maintenance of a working minimum to prevent complete stagnation of German transportation and industry. It feels that in spite of all efforts made by the occupying authorities so far insufficient importance is still attached to increasing the production of coal in the Ruhr and the Saar by every possible means, since upon that production depends the resumption of all production, the fighting off of inflation, and the need for continued relief.

In this respect the committee feels that stronger pressure should be brought upon Poland and Czechoslovakia to enter into the European Coal Organization and that guaranteed amounts of coal for export to western Europe from these countries should be made a condition of furnishing of railway and other transportation equipment.

The committee feels that the allocation of 8 million tons of coal from the United States to the liberated countries of Europe through 1945 represents a sound use of our national resources. It recognizes the serious depletions made in coal stocks in the United States by the strike but feels that a continued delivery of coal to Europe should be made at an increased rate in 1946 when American stocks have been built up to safe minimum levels for the reduced operations of industry from the wartime levels.

The same reason attaches to imports of raw materials of every character which are desperately needed by the liberated countries of Europe for resuming their production. One hundred thousand tons of cotton for Italy in the next year from our own excessively high stocks would permit the widespread resumption of textile industry in that country if accompanied by sufficient fuel. Pulp, lumber, and many minerals not produced in adequate amounts within the countries themselves come into the same category. Definite understandings about the use of loans from the Export-Import Bank to facilitate these imports, where they cannot be financed by the countries in question, would make a major contribution to European recovery.

The committee was informed that Norway and Denmark, as well as some other liberated countries, were unable to pay for coal, particularly because of the high freight rates for delivery through the only Atlantic port capable of taking more tonnage (Hampton Roads). The importance of coal to these countries would indicate the necessity of absorbing this high freight rate to get through the period of stagnation in the immediate months ahead.

D. RELIEF ORGANIZATION AND THE DISTRIBUTION OF FOOD, FUEL, CLOTHING, ETC.

The paying countries of Europe do not depend upon UNRRA for their imports of food, fuel, and raw materials or other civilian necessities. They do, however, have to be assisted in the allocation of these raw materials and commodities in a period of very tight supply. The committee expresses some fears that the passing of the combined boards and SHAEF before the full setting up of an international machinery of allocation for short supplies will impose severe burdens particularly on the paying countries of Europe such as France, Belgium, Holland, Luxembourg, and the Scandinavian countries. It is of the opinion that the State Department must make this a matter of first importance in seeing that sources of supply are made available both in this and other countries with export surpluses.

The organization of relief and the building up of self-sufficient programs for agriculture require, in the judgment of the committee, careful scrutiny as to their continuation and their effect upon a sound diversity of agricultural production throughout the world. The agriculture of Germany, for example, ought not to be permitted to be resumed on a basis that would work toward self-sufficiency in the production of sugar and other uneconomic crops where the land could be more usefully devoted to other types of agricultural production. The committee feels that the Department of Agriculture should concern itself in collaboration with the Department of State in rendering American assistance to liberated countries in such a way as not to encourage once more the building up of high-cost production of

foodstuffs along the lines that the world had reached before and during the war. Production of such bulk cereal crops as wheat and the continuation of high-cost beet-sugar production in Europe raise serious questions about future surpluses which will affect the American farmer as well as all other natural exporting countries.

While the immediate use of relief can serve to prevent uneconomic developments of this character, every effort should be devoted toward putting the countries on a productive basis for the exchange of more economically produced products and commodities, for the natural food surpluses of other regions better endowed for agriculture of certain types. An example brought to the attention of the committee was the present necessity, partly due to shipping and transportation difficulties, of retaining high-priced olive oil for the feeding of the people of Italy where the normal process was to export this oil and import low-priced substitutes for the Italian diet.

It seems clear to the committee that the sooner normal production can be achieved, the sooner American farmers may be able to sell food rather than give it away through our Government.

The relief problem of Europe is a matter of the gravest importance to the United States because of the economic burden on the American system which it imposes and will continue to impose until Europe begins to be able to help itself. At the present time there are two general methods of affording relief.

1. UNRRA.—UNRRA is furnishing relief and rehabilitation assistance in Greece, Yugoslavia, Albania, Czechoslovakia, and Poland. It has recently been authorized to extend assistance to Austria, White Russia, and the Ukraine and to undertake a full program of assistance in Italy. Those countries which, having the necessary foreign exchange, buy their own relief supplies include France, Belgium, Holland, Denmark, Norway, and Luxembourg. There can be no question about the need for relief in many of these countries. The populations face one of the most trying winters yet undergone, with food rations that in the cities still averaged, on the official ration basis, 1,300 to 1,800 calories. While it is true that the black market and the procurement of unrationed foods somewhat supplements this figure in Holland and Italy, and in some parts of France, the diet is barely at a subsistence level and is seriously deficient in fats, calcium, and some proteins.

Furthermore, the people are inadequately housed, inadequately clothed, and without sufficient fuel to face a rigorous winter.

The situation appears to be improving with some rapidity in France, is slowly improving in Italy, and promises to be bearable in Holland before winter sets in. Upon the race in Greece to get food into the mountain districts before winter closes in will possibly depend survival itself for many small communities.

The organization and operation of UNRRA, in the opinion of the committee, leave much to be desired from the point of view not only of American interests but of an efficient job of relief free from political influences.

American interests in this matter are twofold:

(a) The United States contributes or finances nearly 80 percent of UNRRA supplies in terms of actual deliveries. Five hundred and fifty million dollars of its original contribution of \$1,300,000,000 (1 percent of the national income) remain to be appropriated by Con-

gress to fulfill existing obligations. Probably an additional \$1,300,000,000 for another year of operation will be requested. These are not negligible sums.

(b) The other American interest involved is the use of UNRRA aid for political purposes or for maintaining the prestige of states who do not foot the bill.

On point (a) the committee strongly recommends that as large a part as possible of the American contribution to UNRRA should be made in the form of surplus property, including the return of lend-lease items not expended in the war, in accordance with the lend-lease agreements.

It calls attention to the fact that many nations have not fulfilled their UNRRA contributions and that others have resorted to payment in kind in less useful materials than the proposed use of American surpluses. Medical supplies, trucks, surplus food stocks, in addition to the items of clothing and shoes, are among the most urgent needs of the populations of Europe.

The committee would not favor continuing beyond the new crop year the contribution of the United States at the existing level to UNRRA. It feels that the need for relief could be much better met by productive loans which would enable the countries concerned to begin to manufacture and to exchange the goods needed to support their own populations. It is convinced that procurement of a relatively limited amount of raw materials, including coal, cotton, and some special products, by Italy, for example, would go much further toward supplying the Italian population not only with the necessary imports but with means of payment by the laborers in Italy for the goods they need. As long as the resumption of industry is held back in any of the liberated countries, the need for relief continues because there is no purchasing power placed in the hands of individuals and no means for satisfying the needs of these individuals with consumer goods. The spiral of inflation which this scarcity economy generates leads to the need for continued or even increased relief and creates truly a vicious circle.

The second American interest named above, (b), that relief should not be used for political purposes or for increasing the prestige of states who do not foot the bills, raises the question as to whether the existing organization of UNRRA permits the protection of American interests.

To afford large-scale relief to the countries of eastern Europe under present Russian control makes it possible for Russia to siphon off local supplies from these countries and thus increase the aid to Russia as a nonpaying country. There can be no question about the need of Russia for increasing the standard of living of its own population or of the serious impact of the war on the whole Russian economy. The committee views the \$250,000,000 of UNRRA aid already granted to the two Russian Soviet Republics of White Russia and the Ukraine without payment as a generous concession to the Russian demands for UNRRA aid. In the future it feels that steps should be taken to check the need for aid by missions sent to examine conditions on the spot. The committee is convinced that the distribution of UNRRA aid to the countries of eastern Europe under Russian control should be supervised by UNRRA itself to prevent these supplies being used for political purposes. It is further convinced that there must be an

adequate guaranty that UNRRA supplies will not be used simply to permit an additional drain on these territories of livestock, foodstuffs, clothing, and other essential items, including productive equipment, to Russia. Direct control of its own transportation by UNRRA is essential.

2. *Relief in occupied areas.*—The second major method of relief for which America has undertaken an obligation is through the Army's program in occupied areas. After a 6-month period normally, the Army has given over relief in the liberated areas, including Italy, to the UNRRA authorities. In some cases it has been necessary to prolong this beyond the original period. In occupied enemy areas, however, notably Germany, the Army has full responsibility. The charter of UNRRA does not permit it to operate in these areas, and the American Red Cross has so far been excluded from operating as a private agency. The treatment of relief in occupied Germany is discussed in the section on Germany as a special problem.

E. BANKING AND FINANCE: RELATION TO INFLATION AND THE NEED FOR CONSUMER GOODS

The committee was struck by the difficulties imposed on liberated countries in restoring a sound system of banking and finance in view of the complexity introduced by German fiat money and by the clearing up of contractual relationships entered during the period of occupation. Steps taken by Belgium and France to reconstitute their currencies and reorganize their fiscal systems have left these countries with large note circulations which would present great difficulties in stabilizing foreign exchange in line with the internal purchasing power of the countries concerned. It was recognized, however, that no final stabilization of exchanges could be expected until the productive capacity of the systems concerned could be brought back into reasonably full operation.

In the meantime, the requirements for foreign loans of some of the countries concerned seemed, in the judgment of the committee, to leave out of account very large holdings of gold and in foreign assets particularly that part owned by nationals. Private holdings of foreign securities abroad appeared to escape control in some of the countries concerned, particularly in those which have been under German occupation, such as France, Italy, and Greece.

The fiscal systems of Denmark and Norway, like the other liberated countries, were burdened with heavy deficits incurred in supplying goods to Germany which had been paid for in the main in worthless occupation currencies. Greece had followed the drastic remedy of completely retiring this currency which had served only to take from Greece for German use all the available resources that could be moved, perhaps in a more serious degree than in any other occupied country. The problem of setting up sound banking institutions under these conditions is recognized as presenting grave difficulties. The essential, however, is to resume production of consumer goods and goods for export.

Under these conditions the committee feels that productive loans could be justified to break bottlenecks through the financing of raw-material purchases, transportation equipment, and fuel.

The difficulties of working out a banking system in Germany are even greater. The relations between banking in the Russian zone, municipalized by the Russian authorities, and the banking systems of the western zones appeared to the committee to present problems that under present conditions did not permit the economic unification of Germany on a single sound currency and banking basis.

The stagnated production of Germany is the most serious threat to all credit through the mounting danger of inflation and the consequent effects upon all German economy.

Italy and Greece are in a position almost as serious as Germany in this respect. Official salaries are below the barest necessity of living, and wage pressures on the inadequate supply of usable consumer goods produce an uncontrollable tendency to inflation. The obvious remedy to prevent a continuation of this spiraling inflation lay, in the judgment of the committee, in immediate solution to the transportation, communications, and distribution problems treated above as a first necessity. Beyond that the organization of imports of raw materials and the resumption of private trading appeared to be the only sound remedies. Efforts to scale down government expenditures had been drastically made in most of the countries concerned but with a natural lack of success as against the constantly mounting cost of living and the need for large-scale unemployment funds, pensions, and relief.

Productive loans to remedy this situation seemed to the committee preferable to inflationary chaos or continued relief or both.

II. SPECIAL PROBLEMS

The special problems which affected all European recovery were geared around the four previously outlined in the summary: British foreign trade policy and its effects on world commerce; Russian economic policy and its impact on European recovery; German recovery to a minimum standard of health and support of surrounding economies; and the disposal of surplus property.

A. THE FOREIGN TRADE POLICY OF THE BRITISH EMPIRE AS IT AFFECTS WORLD COMMERCE

The British Empire has suffered, as indicated above, through loss of a considerable part of its foreign holdings, through the impairment of its productive system and relative obsolescence of much of its industry, and its shipping losses. Its contribution to world trade has been distinctly decreased. Its indebtedness runs to a figure approaching \$13,000,000,000 to \$14,000,000,000 while its foreign assets have been reduced from about \$16,000,000,000 at their prewar peak to around \$8,000,000,000 or \$9,000,000,000 as nearly as they can be valued today.

The British Empire represents the greatest trading system in the world in terms of exchange between nations, particularly if the countries which have tied their foreign exchange to the pound sterling are considered as a part of the British system. Since 1932 the pound sterling has been the basis for clearing the international balances of a large part of the world's trading system. This so-called sterling area includes all the British Dominions (except Canada), Ireland, India, the

British colonies, and spheres of influence such as Egypt and Iraq and, in the past, Iran and a number of countries like Denmark and the Argentine, whose main trade relations and chief markets have been British.

The Ottawa agreements, dating back to the conference in 1932, set up an internal preferential system for the British Empire which gave an advantage to British exporters in dominion and colonial markets in return for a preference to those parts of the Empire which shipped goods into the United Kingdom. In many cases the preferences were extended to the other Dominions and colonies on a reciprocal basis by the main Dominions concerned—Canada, Australia, New Zealand, and South Africa—although they were never completely generalized. Countries outside the Empire were given secondary preference through a series of agreements that brought in those nations having the closest economic connections with the British market. This movement toward a preferential system occurred at a time when the United States was attempting to reduce tariffs and trade barriers through the reciprocal trade-agreements program. The American policy attempted to generalize the conditions of foreign international trade by the retention of the so-called most-favored-nation clause which granted the privileges negotiated in one agreement to all other countries having most-favored-nation treaties with the United States for the same commodities.

The postwar organization of the sterling area and all its preferential agreements are being strengthened in its prewar trends by two factors:

(a) The wartime controls which were aimed at conserving dollars set up as a condition of import licenses in all the countries that cleared their balances through London a first requirement to import from within the sterling area. Naturally, such a policy tends to strengthen trade bonds within the sterling area and to reduce trade with countries outside the area.

(b) The second obstacle to freeing the channels of world trade is the enormous balance of blocked sterling, so-called, that is owed by Britain to countries from which she drew material support during the war. This blocked sterling runs into figures approximating \$14,000,000,000, at present rates of exchange, or about 3,500,000,000 pounds sterling. The figure is certain to increase until British exports can recover sufficiently to reverse the unfavorable balance.

Although this is primarily a British concern in terms of responsibility, the facts and policies affect not Britain alone but all the major creditors of the United Kingdom. India, for example, holds something over 1,000,000,000 pounds of blocked sterling, almost a third of the total sum owing. Canada and Australia, Egypt and Argentina also, hold very large amounts. The remainder is widely distributed among the other members of the British commonwealth group of countries in the sterling bloc. Some countries, such as Norway and Greece, are owed large sums in the form of insurance for shipping losses incurred during the war.

The objectives of American policy should be to assist the United Kingdom to return to a less restrictive system of trading as rapidly as possible. This, of course, will require financial assistance from the United States in the transition period. A further discussion of this problem and the conditions to be attached to loans in general will be

made under the treatment of long-term problems. In relation to England, however, the committee makes the following observations:

(1) A scaling down of the sterling balances accumulated during the war is in the interest of both the United Kingdom and the rest of the world. A large part of these balances is attributable to transactions very much like lend-lease, and should accordingly be handled in a manner similar to lend-lease settlements. Abnormal sterling balances which are not eliminated in this manner should be converted into long-term obligations which will not place an immediate strain upon the British balance of payments. These financial arrangements will make a substantial contribution toward the establishment of a free exchange market for sterling.

(2) That a prerequisite to the granting of large-scale loans to England should be the removal of discriminatory treatment of quotas, exchange controls, and tariff preferences, with an agreed schedule based on the volume of trade, and flexible time schedules for their removal. The committee calls especial attention to the danger of perpetuating State purchasing quotas and to the use of exchange control as a general over-all method of rationing imports with a consequent impairment of freedom of all private trade.

(3) That as large as possible a portion of the loan to England should be devoted to the liquidation of lend-lease settlements for such goods as are to be retained by England or for consolidating deliveries made under section 3C of the Lend-Lease Act after the end of hostilities.

(4) Similarly, as large a part of the loan as possible should be earmarked specifically for the payment of British purchases of Army, Navy, and other surpluses required by England. This should include payment for permanent installations as well as the movable surpluses that will be of great aid to British reconstruction and to increasing the level of civilian goods.

The large sterling balances in London are simply reflection of a large short-term debtor position of the United Kingdom. The restoration of world trade conditions requires that these short-term debts be converted into longer-term obligations (scaled down in amount wherever possible). Meanwhile, the nations owning these blocked balances in many cases want to use the purchasing power they represent to pay for needed imports. The United States can contribute to this operation by advancing long-term loans to Great Britain, but we should not be expected to make such advances without assurance that the other necessary steps will be taken.

B. PROBLEMS RAISED BY THE ECONOMIC ORGANIZATION OF RUSSIA

Russia, for several reasons, will play a critical part in the establishment of a stable world economic order. In the first place, the Russian system holds the key to a considerable part of the solution of the German reconstruction problem, as has been previously noted. In addition, Russian influence in the countries of eastern Europe at the present time determines the possibility of economic operations in those zones by other powers and the character of the economic as well as the political systems of a very large part of Europe. In spite of the heavy losses of the war, the Russian population within the new Soviet boundaries is something approaching 200,000,000 and constantly

increasing because of a high birth rate. Direct control is presently exercised in Europe over another 100,000,000 people, Russian power extends over the resources of the Polish mining and industrial areas, Czechoslovak mining and industrial areas, and the food and industrial areas of Hungary, Austria, Yugoslavia, Rumania, and Bulgaria, together with the Rumanian oil fields and the mineral resources of this entire territory.

Without speaking of Russian influence on the border States of the entire European area, the Mediterranean and the Middle East, Russia's position on the continent of Asia will also become one of territorial dominance as Russian production and settlement shifts eastward beyond the Urals.

It is impossible to arrive at any accurate figures as to the existing levels of Russian production. Estimates vary largely and there are no official statistics available. It is, nevertheless, certain that, with the occupied regions of Europe to draw upon, the potentialities of Russian production have been tremendously increased. Apparently technicians have been taken from Germany and other countries, along with machines, in order to rebuild Russian industry and to enlarge its scope.

It is certain that the war proved the Russian production, even after the loss of the Don Basin and the whole of the Ukraine and considerable parts of the Volga Basin and the Baltic, capable of unexpected industrial performance. The equipping of the Russian armies, though greatly aided by our own and British lend-lease assistance, was mainly achieved by Russian production itself. Factories like the Stalin Motor Works, which were turning out trucks in Moscow at the time of the visit of the committee, and the other factories which have been inspected by American technicians and production experts, show that mass production technique has been mastered in at least its elements. The production of food from collective farms was capable of supporting a population deprived of most of its productive farm territories, with the addition of lend-lease assistance, at a level that made possible the continuation of the war for 3 years.

As has been emphasized in the summary of principles above, there can be no question of Russia's heavy losses during the war. It is sheer guesswork how long it would take Russia, aided only by the stripping of European factories, to recover its former level of production through the rebuilding of the Dnieper dams and the industrial facilities that have been destroyed as far east as Stalingrad. The rapid rebuilding of Russia depends upon two factors:

(a) The cutting down of expenditures on armaments and the reduction of the huge standing armies that Russia has heretofore felt it necessary to keep.

(b) The availability of large-scale foreign loans to supplement direct reparations.

The only two available sources for large-scale assistance to Russia are the British Empire and the United States, with the latter in the position of being able to give more immediate and large-scale assistance. Most of the other industrial countries of the world will be fully occupied with their own recovery for a period of several years. The capital goods which Russia badly needs and wants immediately for its own reconstruction can come only from the United States.

That there is a mutually complementary basis for an extensive trade between the United States and Russia cannot be doubted. Russian needs for capital equipment, construction equipment, transportation equipment, and machine tools have been stated in terms of several years' total production of the American system in some of these categories. The rebuilding of the devastated parts of Russia and the equipment of its factories will require imports unless the process is to be a very slow one.

The exports of Russia to the United States, which are mainly minerals, timber and wood products, and furs, would depend in their volume on development plans which, in turn, are geared into the availability of transportation equipment and various processing and mining machinery. The volume of Russian exports is in some measure, therefore, conditioned by the rapidity of its recovery from the war and its industrial development as well as by the amounts of manpower that will be devoted under its planning mechanism to export industries.

During the period when Russia was either unable or unwilling to borrow large sums abroad, its total exports were pushed around 1930-31 to a volume stated to reach nearly 600,000,000 gold dollars. However, the commercial possibilities of accepting mineral raw materials, lumber, and furs from Russia for United States import would seem to be limited. The gold production of Russia may go a long way toward making up this difference if the United States is willing to accept unlimited amounts of gold in return for its loans and the goods which these loans mean to Russia.

The experience with Russian trade organization and practices has seemed to show in the past that with the reaching of a certain level of imports of capital goods, there is a steady decline of the need for imports. Russian imports dropped by 1938 to a figure not more than a half of the highest point in the previous 5-year plan. It seemed to be the policy to cut out the imports of consumers' goods, relying on long-term development of domestic Russian production. As far as could be learned, that is the nature of the next 5-year plan, which does not contemplate large-scale imports of consumer goods. Its details, however, have not been made public, and its preparation, we were told, is not completed.

Under normal economic conditions and in the absence of a policy to the contrary, it might be expected that as Russia's income increases, her foreign trade would increase accordingly. This would be particularly true if the increase in her output were of such a character as to provide her with the means for repayment of loans through increased exports.

To the committee it seems obvious that there is a relation between the degree to which Russia cuts back its own armament production and reconverts its plants to civilian needs and the magnitude of the need for loans from the United States or from other foreign sources. It seems to the committee doubtful policy for the United States to afford loans which will in effect permit Russia to maintain a scale of armament production totally disproportionate to that of other major powers, particularly if the World Security Organization is regarded as a guaranty against future aggression. The bearing of the size and magnitude of Russian armaments on other armament, particularly of the countries surrounding Russia, is also something that can no more

be overlooked than would be the case with any other great power. The committee was informed that Russia was demobilizing its manpower, but it could not get facts on the demobilization of war industries.

A major economic problem of Russian relationships is the form of Russia's own organization and its relation to the possibilities of increasing world trade. It is proposed to leave to a later section a detailed discussion of the possibilities of dealing with state trading monopolies; at the same time it is possible here to indicate several problems which Russia's political and economic organization present in considering the possibilities of world recovery and particularly of American foreign trade:

(a) Russia is at present working out trade agreements with the states which she effectively controls in eastern Europe. These might be described as barter arrangements. The terms of these treaties have not been made available to any of our diplomatic missions, even those most intimately concerned, or to the Department of State. The terms of the arrangement which Russia has made with Hungary have just been announced, in accordance with which at least 50 percent of Hungarian production seems to be tied up by Russia, if press reports are to be believed. Some sources give 90 percent of Hungary's present industrial production as going to Russia. What is needed are more reliable facts.

Before consideration can be given to loans to these countries, it is necessary that the terms of these treaties be revealed. Otherwise the basis for repayment of the loans cannot be determined. Russia's claims upon these systems should rest upon the same basis as other governments, giving due weight to the larger need of Russia for reparations.

(b) In the second place, no real basis for evaluating the Russian economy exists so long as secrecy as to official statistics of production and as to future production plans is maintained. The committee was told that with the war over details of the 5-year plan would soon be published and the annual statistics thereafter. Official statistics are not sufficient; there should be opportunity, freely accorded by other countries to Russian observers, for journalists and others to look at the facts upon which these production statistics are based. Not only during the course of the war but up to the present time the entire American productive mechanism was thrown wide open to Russian inspection, and the opportunity was fully utilized. Carefully guarded industrial secrets which would not be revealed to domestic competitors were made available to Russia under the general conception of our lend-lease aid. No such parallel freedom has been accorded to American observers; indeed, it has not been possible to find out, in many cases, what products were being manufactured.

The committee feels that it is necessary that American and other technicians be permitted to look at Russian industrial installations and to estimate the basis of Russian statistics in the matter. Perhaps the United Nations Organization may later be utilized to internationalize and generalize this type of information and technical inspection. It cannot see how, at present, without uncensored and independent estimates by our own representatives, including those of the properly accredited press, there is any sound basis for judging the adequacy of Russian statistics or her ability to repay loans.

(c) Along the same lines, it feels that any unwillingness on the part of Russia to (1) protect American copyright in Russia, (2) permit the free entry of American planes flying the ordinary air routes of Russia such as is fully accorded to Russia by other countries, and (3) give visas in adequate quantities, even to our diplomatic representatives, would raise barriers to economic cooperation between the United States and Russia.

(d) In general, the committee feels that the political obligations of withdrawal of forces in accordance with the Yalta and Potsdam agreements is a prerequisite to economic aid. It feels certain that the existing atmosphere of insecurity found by the committee in several countries is a powerful deterrent to the long-term investment of capital and the establishment of normal economic relationships. As long as the guaranties of freedom of the press, freedom of religion, and freedom of elections are genuinely maintained, the people of the countries concerned have at their disposal the choice of political systems, including that of state socialism if they so desire. It should be noted, however, that the riveting of a totalitarian system on any country by a minority of that country is to deprive the population of any future opportunity of getting rid of the system except by revolution. The chances of revolution under the existing controls of a totalitarian regime, while relatively small, in any case produce the seed of disturbances which retard all world recovery.

The whole question of opening up the waterways, the communications and transportation systems of Europe rests very largely in the hands of Russia today and conditions many of the short-range as well as long-range problems subsequently discussed.

C. RECONSTRUCTION OF GERMANY

The occupying authorities are proceeding as rapidly as possible to scrap the war-making power of Germany where it was not already destroyed. Reparation can be pushed only to the point agreed on by the experts' committee on the standard of living to advise General Clay. The reconstruction of Germany within those limits is basic to all European recovery and, through it, to world recovery. Four aspects of the present situation in Germany present difficulties which the committee thinks require serious consideration and perhaps a change in present policy.

The first refers to a German standard of living compatible with the Potsdam directives and raises the basic issue: How can Germany support its present population even on a bare subsistence level and at the same time meet the drastic claims upon the entire German economy for reparations, support of occupying armies, and for industrial disarmament? Some would push this disarmament beyond the limits of military disarmament and into a complete crippling of the normal industries of Germany.

A second difficulty exists in the form of controls set up in four zones with the differences in policy and the difficulties of any coordination through the Allied Control Council that can restore a Germany fit for self-government and economic health.

The third difficulty is the strict interpretation of the "denazification" not only of German officials but of German industry in such a way as would produce inefficiency and stagnation through the elimination of all experienced management.

A fourth and final difficulty is the dependence of other European countries on Germany's industries. Unless Germany is permitted to resume some of her former industrial activity, these countries will be completely reoriented toward different types of production, with a resultant loss both in production and efficiency.

1. *Standard of living.*—The Potsdam Agreement rested upon the assumption that it would be possible to pay reparations from Germany both to Russia and to France and other states and at the same time strip Germany of its future capacity to make war, without lowering the standard of living of Germany below the danger point which would produce "disease" and "unrest." A limit was to be put upon the recovery of Germany in any case that during the period of occupation would not permit the German standard of living to rise higher than the average of the countries surrounding Germany. An exception of Russia and the United Kingdom from the countries to be taken into consideration was made in order to lessen the difficulties of calculation.

This general formula, set up at Potsdam, in the judgment of the committee, contains several self-contradictory directives to our occupying authorities.

Large reparations from Germany and the stripping of its normal industries on the grounds that they may potentially be used for war are not compatible with maintaining a minimum standard of living for Germany and are certainly not compatible with a sound German contribution to general European recovery. The interpretation of the directive leaves a latitude which can be used to stress either the Draper-Hoover report of the experts called upon by General Clay to advise him as to the minimum standard of living for Germany, or it may stress the crippling of Germany demanded in certain quarters. The committee wishes strongly to urge that the stress should fall on supporting the Draper-Hoover report.

In the first place, there is little possibility for many years to come of the German standard of living reaching even the lowest standard of the surrounding countries from the point of view of food alone, to say nothing of the destruction of something approaching two-thirds of the housing in nearly all the major German cities.

The total population of Germany, including those who have been forced into the occupied zones by a mass migration from the east, is not far short of 66,000,000 people in a shrunken territory which had to export heavily to feed a much smaller number of people in prewar times. Most of the food-surplus area of Germany is in the eastern zone and is subject to whatever drain the Russian occupying forces put upon it. The Russian armies have not an elaborate supply system like our own but continue in peace as in war to live, in the main, from the supplies of the countries where they are quartered. In any case, not only is no food flowing from east to west, but the west and south must presently feed the greater part of the swollen population of Berlin, which normally drew its food supply from the Russian area.

The French, to only a slightly less degree than the Russians, appear to have stripped their occupation territory of herds, livestock, work animals, and food products that were movable.

(a) *German relief as a burden on the United States.*—On all the evidence that the committee could assemble, it seemed clear that the food conditions, as well as those of shelter and fuel, would be more serious in Germany than anywhere else in Europe this winter. While it is true that in the country districts—in spite of poor harvests in the British and, to some extent, in the French zones and a continued stripping of the Russian zone—the population will probably have barely adequate supplies, the picture of the cities is truly desperate. The official ration of 1,550 calories per day, which as far as could be learned it was not proposed to increase, actually runs in some cities as low as 800 to 1,300 calories per person, with small chances of any supplement even by black-market operations. During the summer season limited amounts of fruit and vegetables could be brought in from the country districts. The means of preserving and canning, however, were very limited in Germany, and the winter will see really serious hardships, including widespread malnutrition and some starvation. Already many deaths from starvation are occurring in cities like Berlin. The people in the cities in any case have no adequate means of earning a living and are reduced to selling off their remaining possessions.

It must be emphasized to the Congress of the United States, however, that once again the American taxpayer is being called on to shoulder the burden for a considerable part of the relief, not only of our own zone but indirectly, through supplying the larger part of Berlin, of the Russian zone.² Wheat and flour provided from the United States for the British and French zones have been more prodigally used than in our own, and stock piles have not been built up for the winter.

The committee does not feel that the American people can face the responsibility for permitting widespread starvation in Germany. This problem is not simply one of immediate relief, though it is primarily that; it will be a continuing problem, as pointed out above, if Germany is not permitted to resume a sufficient industrial activity to pay for its necessary imports and to provide its people with the minimum necessities for health.

It need not be pointed out for emphasis that a population, afforded in some cities only 9 cubic meters for individuals in ruined houses, including cellars (about 10 square feet of floor space), and with no fuel allotment except for cooking and such wood as can be procured and burned in available equipment, on a diet that is many hundred calories below the bare subsistence level, will face a terrible winter. General Eisenhower's recent statements show that he and the occupying authorities are fully aware of their problems. In the opinion of the committee they are doing what they can to grapple with it. The carrying out of directives by even military authorities, however, is influenced by the character of American opinion, including American apathy. The committee is certain that if the true facts of the German situation could be adequately brought home to the American people, Red Cross aid and an increase in the basic ration of Germany, as well as an effort to restore its necessary industries, would be demanded by the American public.

² Gen. Lucius Clay, in a press conference in Washington on November 5, 1945, estimated that 300,000 tons additional foodstuffs would have to be provided by the Army in the winter of 1946 beyond the substantial amounts already allocated.

The alternative to permitting a catastrophe, where the United States is one of the chief Allied control powers assuming responsibility, is either to restore Germany as far as possible to a minimum subsistence level or to continue affording relief through payments falling eventually in the main on the United States. France is in no position to assume the relief of Germany, even were she willing to do so. Britain is hardly better off with respect to food and clothing, and not yet normal with respect to fuel. Russia is very much below the standard, probably, of France and can hardly be expected to divert supplies to Germany.

The committee, therefore, urges on Congress a thorough inquiry into our responsibilities in Germany with a view to clarifying the exact nature of the directives under which our military authorities are now operating. It feels that the continuing assumption of financial responsibility for the relief of a defeated economy requires a thorough re-examination of American policy, including if need be, existing agreements as to responsibility as an Allied power. Existing agreements and directives may require revision if they are to be made workable, and at the same time compatible with American responsibility and interests.

(b) *Productive industries and necessary imports.*—The productive industries of the Russian and French zones are being stripped for reparations. The British and American zones, which are also subject to heavy reparation demands from the French and Russian Governments, are being cut down in their industrial production on the general theory that any heavy industry or component manufacturing industry is potentially a war industry. The result is that these two zones cannot produce enough goods to supply their own minimum consumer needs, to say nothing of their inability to export in payment for the food that they must import. Thus the unavailability of any exports to support the population of the two other zones now being systematically stripped is almost matched in the British and American zones.

Somewhere in the neighborhood of 10,000,000 people have been pushed from Prussia, Poland, and the eastern borders of Germany in the Oder and Yser Valleys farther west. In spite of every effort many of them have wound up in the destroyed city of Berlin, which has a population already over 3,000,000 people. It is estimated that upward of 3,000,000 people have been forced from the Russian zone over into the western occupied zones, or have managed to slip across the border.

No attempt will be made to give a detailed criticism of the plans presently being formulated for stripping the industries in the western zones. Significantly they are classed as "secret". It is clear, however, that if nonwar as well as war industries are removed on a large scale, it will be impossible for western Germany to support even the minimum standard of living necessary to prevent disease, without regard to unrest.

The committee, therefore, feels that to strip transportation equipment and the machinery of factories capable of manufacturing it, as well as to strip other basic German industries beyond the point recommended by General Clay's advisory committee of experts, can mean only one of two things: (a) That a considerable part of the German population must be "liquidated" through disease, malnutrition, and slow starvation for a period of years to come, with resultant dangers

to the rest of Europe from pestilence and the spread of plagues that know no boundaries; or (b) the continuation both of large occupying forces to hold down "unrest," and the affording of relief mainly drawn from the United States to prevent actual starvation.

If a "hard peace" requires the elimination of 8 or 10 millions of Germans, it would be much more humane to eliminate them at once. The committee feels that the American antipathy to theories of racism includes an antipathy to the theory of racial guilt. Those Germans who will suffer will in the main be the very old who generally opposed Hitler and the very young who were hardly responsible for him. It would not be feasible to attempt to make Germany pay for the war without reconstituting its industries beyond the point needed for the support of the population at a minimum level. It warns that the prevention of a catastrophe in Middle Europe will impose a further heavy burden on the taxpayers of the United States and upon our occupying armies, if the present contradictory directives stress reparations and the elimination of all industry that can even indirectly support a war as against the necessity for a minimum standard of living for the German people.

The committee cannot refrain from asking the simple question: "What incentive under this plan exists for Germany to turn to democratic ways?" The committee would like to recall the origins of the Nazi movement in the disintegration of Germany during the period of inflation after the last war. The plight of German cities will certainly be worse this winter unless fuel and food are provided on a scale beyond that presently planned.

2. *Four occupation zones and the Allied Control Council.*—The second difficulty which has to be faced in the present method of controlling Germany is the division into four zones of the country and the difference in policies of the four occupying powers. If the lines of agreement fixed during the period of military struggle, and at Potsdam, are regarded as final, substantially the whole of the coal producing country in the east, much of its food production and a great part of whatever is left of its industrial production in that region goes to Poland. Without attempting to consider the strategic boundaries left in Europe by this settlement, the economic area of Germany is thus further cut down as a unit capable of self-support.

Although in principle the Potsdam agreements provide for the flow of goods from east to west as well as west to east, in practice there is little possibility of this trade. The administrative method of control in the Russian zone sets up a type of banking, currency, and up to the present time a transportation and supply system totally dependent upon governmental operation and affording no possibilities of anything other than barter exchange through governmental arrangements with the rest of occupied Germany or with the rest of Europe.

The setting up of the Allied Control Council in Berlin has been hailed in some quarters as the model for the solution to the governing of Germany as an economic and, perhaps later, as a political unit. In the judgment of the committee, the demarking of the zones in Berlin and the methods by which they are run show some of the problems of trying to operate even a great city as an economic unit by this method.

Obviously, every effort must be made to work out a single transportation system for all Germany, and along with it a single economic system. If, however, the process involves a one-way flow of goods

and services, the arrangements can hardly be regarded as satisfactory from the point of view of the western occupying powers, particularly the United States. At the present time Berlin is being fed, so far as the British, French, and American zones are concerned, exclusively from the west and south. Coal has not been made available from Poland from what were previously German coal fields.

As a result of these developments, the economic potential of Germany is being reduced to a point where the Germans cannot produce a minimum subsistence level of output. The only way the western zone will be able to pay for imported supplies, principally food, is the resumption of an operation of nonwar industries.

The American, French, and British occupying authorities have agreed upon a plan setting up five central administrations for the whole of Germany covering (1) finance, (2) industry, (3) foreign trade and commerce, (4) communications, and (5) transportation. Little progress had been made in actually putting these central coordinating administrations into operation. In the judgment of the committee, a serious question is raised as to whether Germany, under actual conditions, can be run as an economic unit while divided into four separate occupied zones and with the system in one zone so radically different from those of the other three.

3. *Denazification.*—The directive on denazification, which was originally put out as No. 1067 to the military authorities and incorporated in the Potsdam agreements in substantially the same form, classes automatically as Nazi (and hence to be removed) any officials who had held office under the Nazi regime. Burgomeisters, who had run German cities for many years prior to the Nazis, and whom the Nazis themselves found to be indispensable to any government in their cities, had to be removed under these directives. If a similar strictness is followed in the application of directives to industrial management, it will prove to be substantially impossible to find any management which had not worked under the Nazi regime. Discretion in retaining industrialists who were not active members of the party seems to be clearly indicated if German industrial production is not to be brought to a standstill or completely taken over by the military authorities and then placed in inexperienced hands.

Estimates of present total German industrial production in relation to prewar normals vary from 5 to 20 percent. The increase of German production is, in a very real sense, the most important immediate issue in Germany. In the judgment of the committee it calls for wisdom in the interpretation of the classification of individuals as Nazis. If everyone is eliminated who in any way had any connection with a movement that controlled Germany for 12 years, the result may well be anarchy and chaos. It will certainly not be the resumption of the production of Germany on a scale capable of supporting the people now thrust into its new borders.

The committee, however, wishes to make it clear that no person should be allowed to hold any position of power, influence, or control in German industry who helped to place Hitler in power or who gave him voluntary support, financially or otherwise.

4. *Dependence of other countries on German industry and resources.*—The German economy made the largest contribution to the total production as well as to the total foreign trade of Europe of any single country exclusive of the United Kingdom. In production indeed the German economy outstripped that of the United Kingdom, though

its foreign trade balance was usually third in the world order of importance, following the United Kingdom and the United States.

In 1938 the total industrial production of Germany was 32,494,000,000 reichsmarks in terms of the 1936 value of the mark. A great part, probably almost half, went into direct or indirect preparation for war. Of this amount exports totaled 4,619,000,000 reichsmarks and imports in the same period 4,218,000,000 reichsmarks. Notable among the industries of Germany was a mining production of 3,500 million reichsmarks for the territory remaining to Germany at the present time under the Potsdam agreements and a very much larger figure if the portions of Germany now awarded to Poland are considered; production of iron and other metals of 2,300 million reichsmarks and the products of iron and other metals of 1,400 million reichsmarks; machinery and vehicles, 4,200 million reichsmarks; electrical equipment just under 3,500 million reichsmarks; chemicals were nearly 1,500 million reichsmarks; textiles (in the area remaining to Germany), 1,500 million plus reichsmarks; clothing, 1,700 million plus; paper, 1,500 million plus (territory remaining to Germany); leather, 450 million minus; rubber goods, musical instruments, and toys, 740 million; wood working, 1,500 million minus; food industry, 4,200 million plus; building, 3 billion minus (territory remaining to Germany).

Included in these amounts were an extremely large production of steel which can undoubtedly be cut about in half from the prewar production since 50 percent was going into armaments; a large production of locomotives, rolling stock, machine tools, machinery, bearings, and components as well as motor vehicles of every type, nitrogen fertilizer, and other chemicals, precision and optical instruments and electrical equipment.

The industries of all the countries surrounding Germany have depended in the past on the superior production efficiency of Germany for needed parts and machine tools. They would either have to erect their own equipment or shift their orders to countries which would need to retool to supply parts and components for already existing equipment.

It is clear that if the intention were to deprive Germany of all possibility of exports adequate to buy the food and raw materials that it needs to keep a minimum standard for its population, this method could be followed, though it would tremendously delay the recovery of all of Europe and might lower for a very long period the whole productive capacity of Europe. It is not the industry of Germany alone that is in question but of the Scandinavian states, Holland, Belgium, Luxembourg, France, Switzerland, Italy, and the smaller countries of Europe, including those in the Russian zone of occupation. It is impossible merely by shifting machinery to create the combination of skilled workers, management, organization, plant location, and other resources necessary to industrial production.

Your committee strongly supports the report of the economic experts selected by General Clay which shows the industries that Germany must retain in order to have a minimum standard of living capable of supplying a subsistence level of food, clothing, and essentials to the German people.

This report contemplates not only the removal of German war-making capacity but the stripping of Germany of excessive industrial capacity beyond the need for maintaining a minimum standard of

living. The expense of maintaining occupying armies is figured on a minimum basis. The stripping of German industry advocated by some critics of the Clay report to prevent the export of all products and any dependence of outside states upon German industry, under the theory that this is the way primarily to disarm Germany, would in effect destroy or set back for an indefinite period the whole industrial system of Europe. Export industries of other countries which count on feeding this market must count at the same time on the loss of the German market. They must count, too, on the inability of the countries where they propose to supplant Germany to repay in terms of goods that are profitably exchangeable with the United States. The committee does not believe that loans to the countries previously importing from Germany aimed at building up inefficient industries to supplant the German industries is good economic sense or conducive to total production and total world trade. It feels that the strategic control of German war-making power is relatively simple so long as stock piles of strategic materials in Germany are not permitted and so long as the uneconomic synthetic industries like petroleum and rubber and the strictly war-making industries are controlled or eliminated.

If the whole future recovery of Europe is to be geared to fear of the bogey of a Germany, reduced in its boundaries and stripped of its war-making capacity as modern Germany is, the recovery of Europe becomes a hopeless problem.

The committee feels that a proper internationalization of the economic linkages of western Europe with the Ruhr and the Saar is a far more desirable solution. Such an economic union would permit the building up of natural grid systems of electric power and the interdependence of industries which would in effect both help to break down prewar trade barriers and to make impossible a war by Germany alone on any of its neighbors. The destruction of Germany's war-making industries is already being undertaken, and the future control of its imports of strategic character would be a further guaranty against any possible German aggression. The committee does not favor the rebuilding of Germany by loans as was done after the last war, but it equally views with disfavor the starvation of Germany, the crippling of the industrial systems of Europe and the consequent need for continuing relief or for continuing chaos in Europe.

D. DISPOSAL OF AMERICAN SURPLUS PROPERTY

The disposal of surplus property is of twofold importance to American economic policy. In the first place its need for reconstruction purposes and its availability as an immediate contribution to all European recovery suggests that speed and a proper allocation of surplus must be combined. In the second place the value of surplus should be made as large an item as possible of all American loans and relief in order to recover the maximum amounts for the taxpayers of the United States and prevent the need for duplicated expenditure.

The reconstruction of Europe and American aid depend, to some extent, on the proposed distribution of American surplus materials. In the first place the surplus trucks, clothing, shoes, cooking utensils, medical supplies, etc., are the most desperately needed items in many of the liberated areas and for the Army's use in the German occupied

area. In the next place the disposal of surplus ought to constitute the largest contribution which the United States can make to UNRRA and to other relief organizations. The surplus is immediately available and is, for the most part, located where transportation to the affected area is not too difficult.

The committee was impressed by the magnitude of American salvage operations in several areas which would provide very large quantities of usable clothing, shoes, household utensils, and many other items suitable for UNRRA use. It feels that a proper value should be assigned to the American contribution through these items and the returned lend-lease equipment.

The committee welcomes the recommendation of the Office of War Mobilization and Reconversion for vesting responsibility in the Department of State for the whole policy making on the disposal of foreign surplus. It believes that the existing legislation empowers the OWMR to act upon the recommendations of the State Department in accordance with the Surplus Property Act.

The organization of surplus disposal and the settlement of lend-lease returns to the United States were studied by the committee in several areas with the conclusions emerging that—

(a) There was a lack of a master plan for determining the priority and allocation of surplus equipment where it would do the most good in facilitating recovery. The committee recommends that the State Department set up a system of allocation and priority for the equipment most needed and most in demand for European recovery, particularly for the allocation of transportation equipment including trucks.

(b) The committee believes that the determination of broad lines of policy having been settled in Washington, detailed decisions should be left to the field forces of the surplus disposal agencies. One of the pressing policies to be determined is the means of accepting payment either through loans or through currencies capable of being converted into dollars or other assets of the countries involved.

(c) At the same time the committee is convinced the claim of the French Government to dispose of all surplus located in France and the claim of the British Government to handle surplus located in the United Kingdom in the same manner would be incompatible with the recommendation of the committee that all surpluses should be handled according to an established priority.

(d) The committee is of the opinion that unless adequate provision is made by the occupying authorities for withholding otherwise surplus transportation, trucking, and clothing as well as foodstuffs for the occupied areas, additional appropriations to support the military occupation of Germany will be needed.

(e) In regard to the determination of surplus, the committee recommends that the Army authorities be instructed, while taking into account (d) above in the calculation of surplus equipment, to declare surplus a safe portion of the equipment before final calculation for the 5-year occupying period.

(f) The committee is convinced that the organization of surplus property requires strengthening in the disposal agencies abroad by building up an adequate field staff and by simplifying the responsibilities of that staff in accordance with recommendation (b) above. The large sums that are tied up at the present time in surplus property

fully justify an adequate field organization under the most competent leadership.

(g) The committee is convinced that the Services of Supply of the Army, including the Quartermaster Corps and the Transportation Corps, and parallel organizations in the Navy, should have full responsibility for warehousing, maintenance, guarding, and delivery of surplus property to ultimate destinations as determined by the sale contracts. The Army should maintain sufficient forces at the bases being now very rapidly demobilized to discharge this responsibility. The inability to move surplus to shipping points or points of delivery which are physically feasible for acceptance by purchasing nations or other agencies has been a severe limiting factor upon the sales of all surplus, including the deliveries of surplus to UNRRA.

The committee recommends that the widest latitude should be accorded to the surplus property administrator to accept payments in kind where these have not been arranged in return for lend-lease settlements. Buildings and land required for United States Government permanent installations, such as embassies and living quarters for foreign service personnel, particularly in non-lend-lease countries, would be an acceptable means of payment for surplus goods. In the main, however, it is necessary to supply many of the countries with earmarked portions of the loans being made by the Export-Import Bank, specifically to liquidate their surplus property acquisitions.

III. LONG-RUN PROBLEMS AFFECTING AMERICAN FOREIGN ECONOMIC POLICY

A. EFFECT OF SHORT-RUN PATTERNS ON LONG-TERM SETTLEMENTS

The settlement of short-run problems, particularly political settlements, naturally determines the pattern of long-run economic policy. If Europe is to be divided into two zones, productively speaking, one in western Europe and one in eastern Europe, if transportation, communications, transit by air and by the waterways of Europe, is cut into these two compartments, its economic life and that of the whole world will require a major readjustment. It follows that two systems of banking and exchange, the one on a controlled basis of state monopolies and barter, and the other permitting varying degrees of free enterprise, will find the usual difficulties of adjustment between two such systems. This was amply documented historically by the system of blocked marks and the dumping procedures adopted by the Nazis with their disruptive effect on the whole of a free trading economy. States which permit private trading are forced into controlling exchanges and into special arrangements with the trading monopolies of those states with which they must exchange exports and imports, if only for the reasons of transportation costs and the location of raw materials, especially coal.

It is further clear to the committee that the poverty resulting from the war and the requirement to build up exports force the retention by many of the liberated states of controls over imports and other internal economic controls that are extremely disruptive of any freedom of trade. Though these measures are undertaken as short-run emergency recovery measures, in effect they determine the pattern by which nations go on handling their imports and tend to

rivet on each economy a system of quotas, public purchases through governmental trading organizations, exchange controls and internal methods of allocation incompatible with private business arrangements.

In conformity with the principles of policy recommended in the sixth report of the committee, it is therefore necessary to remove these obstacles to trade by bringing to an end, as quickly as possible, the period of relief and instituting in its stead a period of productive internal recovery where consumer goods—fuel, food, shelter, clothing, and transportation—may be made normally available by the productive resources of each national system or by imports for which they are able to pay by exports and services. The case of Italy affords a striking example which is treated elsewhere in more detail. Unless coal and raw materials are made available to Italy in the immediate future, the spiral of inflation which has already set in will continue to press prices up two or three times every time a wage increase is granted, because there are so few commodities available for which wages can actually be spent. To continue affording relief to such a population by distributing food and other necessities would be prolonging the need for relief indefinitely, unless the productive power of Italy is brought back into play. Once a minimum food economy to maintain the health of the population is reached, the imports of other commodities should be those that would produce an industrial recovery within Italy.

The same thing, of course, applies to relief in the other sections and is of particular importance in the occupied areas where the direct responsibility for relief within our own zone falls on the American Army and the American taxpayer. As has been noted above, a considerable part of the burden of the other zones is indirectly being forced on the same shoulders.

With respect to the prevention of reverting to barter agreements and import control systems, the French example will serve to point up the position of all the liberated countries. This is in some measure the position also of Sweden and certain neutrals. The Ministry of Production in France emphasized that France at the present time has abolished its tariffs. It is clear, however, that the abolition of tariffs is of less importance than the imposition of exchange controls. It is also clear that the administrative procedures which govern the allocation of quotas for imports extend in fact into controlling the private importer. An importer, for example, who buys an American tractor at the present time may pay 500,000 francs for the tractor laid down in a French port. It then is taken from the importer by the French Government which sells the tractor at a very large mark-up, sometimes of from 50 to 100 percent, in effect making the consumer pay that amount of tariff. The importer is given some percentage of profit on the transaction for his services in handling the initial contract, but the advantages of competitive trade are entirely lost and the tariff is just as effective. Quotas on the import of American movies and an attempt to control them in terms of the amount they gross in box-office receipts is a similar device initiated in France but being widely imitated by other European countries.

All these devices are rooted in the undoubted need for controlling foreign exchange in the period of reestablishing a sound economy and during the absence of available exports to balance the international

payments of the war-torn countries. At the same time there is no guaranty, under the conditions in which they are seeking loans, that these devices will disappear once the loans enable them to bridge over the period prior to the resumption of exports. They must be eliminated, as American aid and their natural recovery permit, on an agreed basis.

B. LONG-TERM FACTORS IN RECOVERY: AMERICAN POLICIES

1. *Loan policies.*—The committee recommends therefore that a primary condition to be attached to all American loans should be a schedule for the repeal of the quotas, exchange controls, except on the export of domestically owned funds attempting to flee the country; a full mobilization of the foreign assets of the countries concerned, including their private holdings abroad, with a guaranty of nondiscriminatory treatment for all business of United States citizens. Efforts to impose laws requiring management or ownership by nationals of American branch factories or enterprises are especially to be safeguarded against.

The committee assumes that all loans other than those made by the Export-Import Bank and prior to the working of the Bretton Woods agreements will come before Congress for approval and legislation. It feels that loans cannot properly be made to states which have not shown a willingness to undertake the obligations and enjoy the benefits of the Bretton Woods arrangements except for the type of loans that are to be made by the Export-Import Bank within its present authorized funds of \$3,500,000,000.

In the judgment of the committee small loans by the Export-Import Bank of a constructive nature at this time, to provide for the acquisition of raw materials, fuel, shipping, and surplus property, will clear the way for long-term recovery. The committee is particularly concerned to remove the necessity for continued relief by productive loans of this character, always subject to the conditions attaching to loans and aids stated above.

There is a danger, of course, that the negative aspect of this report may be stressed to the effect that only the conditions attaching to loans are emphasized. The committee wishes very strongly to make it clear that in its judgment there is a real need for large-scale loans to Britain, to France, and undoubtedly to Russia also, if these countries are prepared:

- (a) To meet the political obligations which they have undertaken including proper settlement of lend-lease;
- (b) To work out schedules for the removal of trade barriers and to facilitate the resumption of multilateral trade;
- (c) To give up, insofar as is compatible with their political systems, the channeling of all trade through Government sources and the retention of quotas and exchange controls after the clearing up of wartime indebtedness and taking into account the availability of capital through the Bretton Woods agreements as well as through other loans;
- (d) To furnish the means of judging the soundness of the loans from the point of view of the employment of national resources in armament production, in coal production, and the terms of agreements with other states; as well as the permission for American journalists, technicians, and others to have full access to information regarding

production facilities as well as the official statistics of the countries concerned.

The committee wishes to emphasize that it does not see how countries which refused to admit the validity of American copyright or to permit the distribution of American books, periodicals, movies and other cultural media can afford the basis for a normal economic cooperation.

In discussing postwar lending by the United States, the committee has considered primarily governmental loans. While these will undoubtedly be the predominant type of loans in the first few years after the war, it should be emphasized that governmental loans should not be made to the exclusion of private loans. As soon as sufficient stability in international affairs is achieved, it is expected that private lending will again resume its important position in international trade.

2. *United States policy in dealing with state trading monopolies.*—It is clear that the pattern of future world trade is greatly conditioned by the existence of state trading monopolies. The Russian system constitutes the most powerful example of this. The system has been reproduced in all the eastern European countries under Russian control and tied into Russia by secret trade treaties, as well as by political control.

It is by no means limited to these governments, however. The British Government has announced a policy of continuing state purchases for all the basic essentials of its import program in raw materials. The probability of the extension of this system into other purchases as an adjunct of exchange control seems strong. France is in effect achieving the same pattern. Although ordinary importers may be used as private channels in the manner noted above, the effect of pooling the disposal of the goods imported and selling them through state-controlled prices achieves the results of a state monopoly. This pattern appears to be one that may be widely followed in other nations. It is generally defended as a part of the need for controlling the volume of imports during a period of severe pressure on the exchanges.

The committee recommends that two policies should be followed in dealing with state import monopolies:

(a) In the instance of Russia it is necessary to deal with the state monopoly (Amtorg) as an inherent feature of the Russian system. At the same time every effort should be made to have private American business accorded more flexible channels of approach to Russian industrial concerns than through the single channel of Amtorg in New York.

(b) It does not seem to be necessary to recognize the same completely controlled system in other countries. The foreign-trade policy of the United States should do everything possible to discourage trading with state monopolies and should facilitate direct trade with individuals in the countries concerned. Such a policy will be considerably strengthened if it is integrated with our postwar foreign lending program. In general, loans should be made in such a way as to secure the greatest possible amount of trade between individuals. In particular, care must be taken that any loans to these state monopolies do not result in disruption of existing channels of private trade and commerce.

3. *The protection of future American interests through lend-lease settlements.*—In considering lend-lease, it is essential that three factors be borne in mind: First, the evident justice of recognition by other nations of the degree to which American blood and treasure were spent in their defense as well as our own; second, the fact that lend-lease was not an altruistic gesture on the part of the United States but fundamentally a means of saving American lives by enabling our allies to fight more effectively; and, third, that in consideration of any lend-lease settlements, an account must be taken of the economic impact of such settlements upon the nation with which such settlement is made.

The United States has attached to the lend-lease agreements protections for the repayment of lend-lease and by article VII of the lend-lease agreement between the United Kingdom and the United States conditions for freeing international trade.

It is apparent that the intention of Congress, accepted in the lend-lease agreements by the countries to which this form of aid was rendered, was to secure the promises of—

- (a) Freeing the channels of world trade in the postwar settlements;
- (b) The return of materials and property not expended in carrying out the war, or otherwise disposed of on satisfactory terms; and
- (c) The repayment in kind where desirable.

In only one instance—Belgium—have the amounts of reverse lend-lease overbalanced our own expenditures for the countries concerned. In all other instances, the balance of lend-lease is so overwhelmingly in favor of the United States as the major contributor that settlements should flow only in one direction, namely, to the United States.

The conditions to be attached to loans previously spoken of should be used to reinsure the promises of the contracting countries under lend-lease agreements to free trade, in the manner indicated above.

In the second place, the return of nonexpended items, both military and civilian in character, should be insisted upon unless the procuring country was prepared to make settlement through a loan either on the basis provided by the Lend-Lease Act or a general loan.

It is particularly necessary to insist upon the sale of lend-lease contributions in the form of permanent installations, including air fields, training fields, and military installations, as part of any general settlement of loans to the countries concerned.

Over and above this, the maintenance of navigation rights, air bases, civilian air and navigation rights, and the permanent retention of certain flying fields for American use on a civilian basis, should, in the judgment of the committee, be insisted upon as part of our general postwar settlements, particularly as they affect economic policy.

The third objective of lend-lease settlement, repayment in kind, should include the return of unexpended raw materials as well as other useful commodities and products. Consideration should be given to acquisition of American rights to participation in the international control of certain strategic materials in colonial areas of the countries to which lend-lease has been afforded.

It is important for normal industrial development that we should have an assured right to imports of those materials which are either not produced within our own borders or in which we are becoming deficient. There are no less than 40 such minerals and metals of which the chief in importance are tin, manganese, chromium, tungsten, antimony, cobalt, asbestos, corundum, mica, quartz crystals, graphite,

bismuth, lead, zinc, copper, platinum, mercury, beryllium, vanadium, steatite talc, fluorspar, cryolite, industrial diamonds, tantalum, columbite, radium, and uranium.

The establishment of American rights to share in policy making, as to the future development and control of these materials in terms of production policy, would seem to be a legitimate offset for any cancellation of the repayment of lend-lease in direct terms by the countries which have benefited.

4. *International financial stability.*—A basic and complicated problem of postwar reconstruction will be that of attaining international monetary stability. This Nation has already committed itself to membership in the International Bank for Reconstruction and Development and the International Monetary Fund. These two agencies are not operating at the present time, however, and even when they are formally set up, there will be a period of extremely difficult adjustments before anything approaching world monetary stability can be expected.

Basically the problems will consist of arriving at suitable relationships between the relative values of various currencies and of appraising the capital needs of various countries in order that long-term loans may be available where they are needed and economically justified.

The United States has an international responsibility, in arranging proper settlements of lend-lease accounts and in the making of additional international loans, to work toward the same ends as the International Monetary Fund and the International Bank for Reconstruction and Development.

The committee recognizes that in making loans to other nations we must arrange such terms of repayment as will be within the capacity of the borrowing nation, and we must further be able and willing to accept the flow of interest and repayment of principal that will be involved.

The discussion above further indicates that this Nation is justified in requiring as a condition to the making of such loans certain commitments from the borrowing countries. The commitments, which the committee recommends, are not in the nature of selfish acquisitive gains to the United States alone but are rather in the nature of securing arrangements that will tend to promote freer world trade, a more secure world peace, and higher productivity and living standards everywhere.

(a) *International gold standard.*—The terms of the Bretton Woods agreements contemplate an international monetary standard employing gold as its basic reserve and measure of value. Under this international monetary system it is hoped that international transactions can be settled without frequent and disorderly fluctuations in exchange rates and without such large one-way flows of gold as moved toward the United States during most of the interwar period. The United States has about \$20,000,000,000 of gold at the present time, representing nearly 60 percent of the total world stocks. In addition there is located in the United States over \$4,000,000,000 of gold held in trust ("earmarked") for the account of foreign owners.

One of the problems that will be encountered in the early postwar years, as a result of the inevitable and insistent demands for American products, will be the devising of suitable means of payment for these goods. While it has been this committee's recommendation that

goods will have to be accepted in exchange for the goods we export, there will be during the reconstruction period a great shortage of goods available for export from the devastated countries.

So insistent will be the demand for American goods that, without loans, a very strong drain on the gold supplies of the nations outside the United States would be created. The result would be that our already excessive share of the world's gold would further accumulate, while the needed supplies of nations seeking to restore some semblance of monetary order would run completely dry. Such a movement clearly must be avoided. It would bring in its train depreciating currencies abroad, exchange controls, and other measures that hamper or stifle world trade. It would increase the apparatus of economic warfare. It seems clear in view of these facts that there is a real place for American loans to foreign nations both in order to promote world reconstruction and recovery and in order to protect the ground-work upon which a sound world monetary system may be built.

(b) *Commodity stock piles.*—It has been suggested to the committee that a possible contribution to the solution of the problems that will arise in connection with the repayment of reconstruction loans can be accomplished by making arrangements for this Nation to accept in payment certain basic minerals which will be acquired by our Government and held in stock piles as strategic reserves both against political emergency and against the threatened exhaustion of domestic resources. A long list of metals has been suggested for inclusion in such stock piles, representing metals of which the domestic production or reserves are inadequate for possible future needs or which may not be produced in this country at all.

The arguments which have been presented in favor of stock piling strategic metals are that (1) they will make us a stronger Nation and one less vulnerable to attack; (2) they will make it less necessary for this country to accept gold as the only available means of making payments due us; (3) these metals, being acquired for Government account, and withheld from commercial channels (except in emergency) will not constitute a competitive threat to domestic or other producers; (4) certain foreign nations have little else besides these strategic minerals to be used in making foreign payments (the Belgian Congo has been cited as a case of this sort); and (5) their acquisition from surplus world production over and above commercial needs might be arranged in such a way as to be a stabilizing factor in extractive economies.

Over against these proposed advantages of a stock-piling program lie real difficulties: (1) Those that would be involved in connection with protecting a stock-piling operation against becoming a price-support subsidy; (2) the objection that idle reserves (whether of gold or other minerals) represent a freezing or immobilizing of resources that could better be used in a productive way; (3) that the adopting of a stock-piling policy might be regarded as a menacing or unfriendly gesture by other nations; and (4) that the operation of such a stock-pile policy would tend to drive other nations, particularly producing nations, into a cartel or other arrangement for the purpose of protecting their interests against the threat which a huge accumulation of their product by one nation would hold over the world market.

The committee believes that the suggestion of permitting repayment of our foreign loans in part by shipment of strategic metals for

stock-piling purposes should be given careful study. It may be that for certain nations, which are almost the sole producers of a needed material or which depend upon an ability to dispose of certain materials in export markets as the only means by which they could make payments, it might be feasible to insert as a repayment provision in international loans that this Government would accept such products for stock-piling purposes. This method of repayment might permit a favorable balance which could not be achieved commercially. Payments by this method could begin at once and continue over many years, tending to maintain a high level of production and prosperity and to iron out cyclical depressions, particularly in the colonial countries and those which are primary producers of minerals. The committee does not feel, however, that it is in a position to recommend the general adoption of a national policy for stock piling strategic minerals until additional studies and hearings on the subject have been conducted.

IV. INSTRUMENTS OF AMERICAN FOREIGN POLICY AND ORGANIZATION OF THE FOREIGN SERVICE

The organization of the Department of State in Washington is weakened in the judgment of the committee in two respects in its foreign service:

1. The career service of the United States is not put upon a basis of comparable attraction in allowances, as well as in salaries, to hold the best talents in the foreign service. Comparable grades and responsibilities of the foreign service were found to be less well remunerated and with less rapid promotion in the foreign service than in the permanent departments in Washington and on a much less adequate basis in the same respects than the temporary war agencies. The committee strongly urges the consideration of Congress for strengthening the usefulness of the career service by insisting in its appropriations to the Department of State on a recognition of the more expensive living conditions abroad and appropriate salaries and retirement allowances. The type of information obtained and the execution of foreign economic policies must depend upon the caliber of the personnel retained in the foreign service.

2. The second general point is the lack of appropriate scope for promotion in the economic sides of the foreign service of the United States and the consequent tendency of officers to prefer appointments in the political side of the foreign service, rather than in the economic side. Missions in the most important European capitals, where the Russian and British Governments were represented by a very large staff and by the top-ranking officials both in service and in pay, were found to be restricted in scope and in the rewards available for distinguished service to our diplomats who were on the commercial and economic side of the legation or embassy staff. The committee would like to pay tribute to the devotion of many Americans who have loyally served their country for the greater part of their lives abroad under these difficult conditions and the high caliber of the representation which we found. It was nevertheless recognized that in many missions it would be difficult, if not impossible, to retain in the foreign service of the United States not only the higher-ranking personnel but the clerical staffs and research workers and special

officers in postwar conditions. It seems to the committee of critical importance to make the foreign service of the United States rank in its ability and consequent influence with that of Great Britain, Russia, France, and other countries. Special attention should be paid to the improvement of the foreign service and in particular its economic and information branches.

As the Office of War Information and presumably the Foreign Economic Administration are dissolved, some portion of the better personnel and a great part of the activities of these agencies should be incorporated into the regular foreign service of the United States.

In the organization of the department in Washington it seems to the committee that there is a lack of control within the hands of the State Department proper of many aspects of the foreign policy of the United States. It is recognized that interdepartmental relationships with the Treasury, Agriculture, and Commerce and in some instances with the Department of the Interior and other specially interested agencies, require clearance with the heads of these departments. It seems, however, to the committee that the organization of a parallel to the British Department of Overseas Trade would be a natural development for the growing importance of foreign trade to the United States. (It would also incorporate the control of the Export-Import Bank and bring under its head a considerable part of the activities of the Bureau of Foreign and Domestic Commerce.)

The committee regards it as imperative that American foreign economic policies should be guided from a single center of responsibility which logically is the Department of State, since our economic foreign policy is our strongest bargaining weapon in setting political policies. The granting of loans, the disposal of foreign surplus property (which the committee notes has already been put in the Department of State for policy guidance), the distribution of relief, and the actual channeling of trade, all require to be made a part of the single and clearly defined economic foreign policy. At the same time, the development of trade relations and the placing of business abroad, both for exports and imports, needs a more aggressive policy than can normally be followed under the guidance of the Department of State alone. The committee therefore recommends to the executive agencies consideration of closer coordination of the implementation of foreign economic policy under the policy guidance of the Department of State.

The committee feels that legislative sanction should be given to the creation of an Under Secretary of State for Foreign Economic Policy who would report directly to the Secretary of State. He should coordinate the aspects of trade promotion that now come under the Department of Commerce, of loans, whether of Treasury or of the Export-Import Bank; of foreign agricultural trade coming under the Department of Agriculture; and foreign mineral trade promotion coming under the Department of the Interior. It is not proposed to alter the present location of these functions in the departments concerned but to give legislative sanction for clearing the assistant secretaries in each department concerned with these foreign economic aspects of the Department with the Under Secretary of State for Foreign Economic Policy. It is in the highest degree important that the closest working relationships be established by the assistant secretaries of the various departments with the Under Secretary of State for Foreign Economic Policy. It is, therefore,

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felt that he should be consulted in all instances as to the acceptability of the persons appointed to this function in the departments concerned. He should also act as chairman, with ultimate powers of making the binding decisions, of a policy committee composed of the assistant secretaries of the departments previously mentioned to pass on the matters of foreign economic policy.

It is not the proper function of the Department of State itself to undertake the promotional aspects of trade policy, but it is essential that the formulation of foreign economic policy should in every way encourage and afford legitimate protection to American economic interests abroad. It is particularly important to have one policy carried out in this field rather than conflicting policies. The committee feels that the Under Secretary of State for Foreign Economic Policy, reporting directly to the Secretary of State on this whole area, is the logical official to carry out this responsibility.

An awakened interest on the part of the entire business community and of the Nation in the stake of the United States in foreign trade should be accompanied by an appropriate recognition of the increased importance of the agencies of government which promote and protect this trade.

The international trade organization, already treated in the summary of conclusions at some length, can become an instrument for American foreign policy in reaching and maintaining agreements to remove trade barriers and restrictions. It may also serve to scrutinize on an international scale cartel policies and commodity agreements. The committee heartily endorses the initiative of the Departments of State and of Commerce to this end.