CERTAIN ASPECTS OF THE EUROPEAN RECOVERY PROBLEM
FROM THE UNITED STATES STANDPOINT

This is a working paper for discussion purposes only.

TOP-SECRET
This report constitutes a preliminary estimate of certain of the considerations which warrant attention in connection with the problem of European recovery and United States aid. These considerations are set forth tentatively, and they should be accepted with caution; for the factual material on which they are based is still far from complete. They will be subject to reexamination and revision in the light of the facts developed by the European nations themselves in the course of their own study of the problem of European recovery, and the conclusions arrived at by the committees appointed by the President to examine the relationship between the domestic economy and further aid to foreign countries. This report does not purport to represent a final answer to the questions treated, and its purpose is only to bring out certain of the elements of the problem in the light of the facts presently available.

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The attached report has been prepared in the Policy Planning Staff of the Department of State.

It would be erroneous, however, to present it as exclusively the work of that Staff. It is in large part based upon the studies, recommendations and suggestions of a wide cross-section of the operating and research units of the Department. The role of the Staff has consisted chiefly in organizing and digesting this material and developing a unified set of conclusions.

The Staff wishes to express its appreciation for the loyal and enthusiastic support which it has received from the several operating and research units of the Department and for the excellence of the contributions which they have made.
TABLE OF CONTENTS

I. THE SOURCE OF UNITED STATES INTEREST .......... 2

II. NATURE OF THE PROBLEM FROM THE UNITED STATES STANDPOINT ............ 5

III. THE ELEMENTS OF EUROPEAN RECOVERY ............. 10
   A. Revival of Industrial and Agricultural Production .......... 10
   B. Transportation .................................... 16
   C. Inter-European Exchange Facilities ................... 19
   D. Interim Deficits in Imports ....................... 22

IV. GENERAL CONSIDERATIONS GOVERNING UNITED STATES AID .................. 24

V. FINANCING OF UNITED STATES AID ..................... 27

VI. CONDITIONS OF UNITED STATES AID .................... 30
   A. International Groupings ............................ 30
   B. Individual Countries ......................... 31
   C. The Principle of Diminishing Shipments ............... 35

VII. SPECIAL CONSIDERATIONS WITH RESPECT TO CERTAIN INDIVIDUAL COUNTRIES .......... 38
    A. Great Britain .................................... 38
    B. Germany ......................................... 42
    C. Austria ......................................... 49

VIII. PRIVATE PARTICIPATION IN UNITED STATES AID ...... 50

IX. FURTHER IMPLICATIONS OF UNITED STATES AID TO EUROPE ................. 54
    A. United States Domestic Economy .................. 54
    B. The United Nations ......................... 55
    C. United States Foreign Policy in General ........... 58

X. CONCLUSION ........................................ 62
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This Government will soon be called upon to discuss with European governments the problem of European recovery and to determine the part which the United States should take in its solution.

The purpose of this report is to examine the elements of the problem in their relation to the interests of the United States and to suggest some of the considerations by which this Government might usefully be guided in determining its attitude in the questions at issue.
The factors which have impeded the general recovery of European economy since V-E day need no elaborate description. They have been widely analyzed and discussed in the United States. For purposes of this report, it is sufficient to note that they include, in addition to certain long-term trends of European development, the following factors, most of which have arisen directly from the recent war:

(a) The physical and psychic exhaustion of people everywhere;
(b) the feelings of disillusionment, insecurity and apathy occasioned by the developments of the post-hostilities period and particularly by the tendency toward division of the continent between east and west;
(c) the destruction and depreciation of physical plant and equipment;
(d) the depletion of financial reserves, particularly in foreign exchange and external assets;
(e) social and economic dislocation, including the breakdown of the pre-war institutional patterns and the destruction of the machinery of economic intercourse;
(f) the prolonged delay in adjusting German economy to production for peaceful purposes.

In consequence of these factors, and of other lesser ones, we face a situation today in which important industrial and population centers of the continent
are unable to recover by dint of their own efforts the living standards which their peoples enjoyed prior to the war. In many instances, they are not even in a position to prevent, unaided, a further deterioration of the conditions under which their peoples are obliged to live.

Further deterioration might be disastrous to Europe. It might well bring such hardship, such bewilderment, such desperate struggle for control over inadequate resources as to lead to widespread repudiation of the principles on which modern European civilization has been founded and for which, in the minds of many, two world wars have been fought. The principles of law, of justice, and of restraint in the exercise of political power, already widely impugned and attacked, might then be finally swept away—and with them the vital recognition that the integrity of society as a whole must rest on respect for the dignity of the individual citizen. The implications of such a loss would far surpass the common apprehensions over the possibility of "communist control". There is involved in the continuation of the present conditions in Europe nothing less than the possibility of a renunciation by Europeans of the values of individual responsibility and political restraint which have become traditional to their continent. This would undo the work of centuries and would cause such damage as could only be overcome by the effort of future centuries.

United States interests in the broadest sense could not fail to be profoundly affected by such a trend of events.
In the first place, the United States people have a very real economic interest in Europe. This stems from Europe's role in the past as a market and as a major source of supply for a variety of products and services.

But beyond this, the traditional concept of U.S. security has been predicated on the sort of Europe now in jeopardy. The broad pattern of our recent foreign policy, including the confidence we have placed in the United Nations, has assumed the continuance in Europe of a considerable number of free states subservient to no great power, and recognizing their heritage of civil liberties and personal responsibility and determined to maintain this heritage. If this premise were to be invalidated, there would have to be a basic revision of the whole concept of our international position—a revision which might logically demand of us material sacrifices and restraints far exceeding the maximum implications of a program of aid to European reconstruction. But in addition, the United States, in common with most of the rest of the world, would suffer a cultural and spiritual loss incalculable in its long-term effects.

It is on the recognition of these realities that U.S. interest in European recovery is founded. And it is from this recognition that any assessment of the proper role of the United States in a European recovery program must proceed.
II. NATURE OF THE PROBLEM FROM THE UNITED STATES STANDPOINT

As indicated above, it is important industrial and population centers of the continent which are most in need of outside aid. It is these areas above all which lack the agricultural resources and raw materials necessary to their own support. They can make up these deficiencies only by imports. The typical economic function of these areas is to process raw materials produced elsewhere and to pay for these raw materials with part of the finished fabricated products. They must have imports to feed their people and their machines, and in normal times the products of their people and machines serve to pay for these imports. Because of the expansion of the production processes in these areas their dependence upon imports has increased. But they cannot pay for increased imports until their production and their export possibilities have not only been restored to, but have surpassed, pre-war levels.

Production has been vigorously increasing in most of these areas, but it is still far below requirements for minimum consumption standards or speedy rehabilitation. Furthermore this revived production is dependent on the maintenance of imports for which the peoples of these regions cannot yet pay. To satisfy even their irreducible minimum requirements they have found it necessary to turn to the Western Hemisphere, as the only part of the world which, generally speaking, has sizable surpluses of production in the commodities they must need. In so doing, they have drawn heavily on
their own gold and dollar resources and on the readiness of the people of this country, and others in this Hemisphere, to furnish aid by grant and loan.

The assistance already granted to Europe by the United States in the form of loans or grants since the termination of hostilities has been very considerable. It has totalled about ten billion dollars. Many Americans wonder why it has not achieved greater results and why, in particular, it has not served to eliminate the dependence of the Europeans on abnormal financing of their import requirements.

As far as can be judged from the data at hand, there have been two main reasons for this.

The first is that in many instances our aid has simply not been enough. In some instances there has been an underestimation, for which we ourselves share responsibility, of the extent of war-time damage and of the cost of reconstruction. In other cases unpredictable events, such as the severity of the past winter, have rendered calculations unreal. Furthermore, the rise in prices of commodities imported from the U.S. and other countries has had a similar effect.

The second reason is that in the period immediately following the German collapse the pressing need for emergency relief demanded so great a share of the resources devoted to the aid of Europe that recovery and reconstruction had to be relegated to second place. In these circumstances it was not possible to initiate comprehensive, well thought out and effective programs of recovery, national or international, to which U.S. aid
could be geared. Notable steps were taken by many European countries to restore their level of production, frequently at the expense of prolonged hardships for their populations, already strained by the deprivations of war and the German occupation. But this recovery was always limited by shortages of materials available only from abroad, and its progress was uneven. We have now a far better opportunity than herebefore to construct a program for recovery that will guide production to the levels at which required imports can be paid for in the normal manner.

As things now stand, the dependence of the Latin European trading nations on abnormal means of paying for their import requirements has not yet been remedied; it plainly cannot be remedied by a mere continuation of the approaches, both here and in Europe, which have prevailed in the past. Yet this dependence must now be removed, if these European peoples are not to be permanently pauperized and if the United States is to be relieved of a burden which no nation could be expected to bear for long.

A new approach is therefore required, and it must rest on a new assessment of the resources needed and of the conditions under which they should be made available and utilized.

The essential problem is accordingly to make available to these countries those imports necessary to re-establish their economies on a pay-as-you-go basis. The abnormal element in the present situation is that these
requirements are greater than usual, and the means to pay for them less than usual. Our program of aid can be designed to the end of rapidly eliminating the need for aid, because production in the European countries can be raised to the point where the need for imports is reduced and the means of paying for them by an export surplus are increased. The inspiring promise of this situation lies in the fact that it is possible for U.S. aid to have its effects greatly multiplied through the restoration of high levels of production in these countries.

For this reason, if for no other, our concern would naturally be with those highly industrialized and heavily populated areas which have not only the greatest need for imports, and hence for foreign exchange, but also the greatest possibility for expanding their production and exports.

This does not mean that we need interpret narrowly the scope or function of our assistance. The problems of these key areas involve in many respects the recovery of the European area as a whole, and our readiness to aid must be addressed to that recovery itself and to all those who are prepared to take a loyal part in achieving it. We still hope that this circle will eventually come to include all the nations of the continent. But since the total demands upon us, even in Europe alone, plainly exceed in many instances our capacity to produce and export, we shall be obliged to make choices and to husband carefully the resources and facilities which we can spare for this purpose. It is here that we must bear in mind...
that our immediate possibilities for helpfulness relate primarily to the alleviation of the difficulties of the highly industrialized, heavily-populated trading nations which have the greatest need of imports and which cannot at this time acquire the requisite amounts of foreign exchange with the produce of their own economies.
III. THE ELEMENTS OF EUROPEAN RECOVERY

The principal requirements for the economic recovery of Europe are the revival of industrial and agricultural production, the rehabilitation and effective use of the European transport network, the development of facilities for increasing intra-European exchanges, and the meeting of inherited import deficits.

A. Revival of Industrial and Agricultural Production.

Production must be restored to enable the countries concerned to reduce their abnormal dependence on imports, particularly from the dollar area, and to cover their normal import requirements by the proceeds of exports.

This constitutes the indispensable axis of any adequate and realistic program. Unless a program holds out solid promise of substantially accomplishing this end, it can be considered at best only a partial and uncertain answer to the problem, and at the worst only another inadequate palliative.

While some of the materials required for this purpose must come from abroad, the greater part can and should be provided from European sources. The emphasis in U.S. aid in this field must be laid on assisting the Europeans to overcome the principal bottlenecks in the restoration of production. If imports from the U.S. are in large measure bottleneck items, it will mean that the value of the resulting addition to production in Europe will be a high multiple of the cost of the goods imported. Productive power otherwise idle can be put to work once the bottleneck items are available.
Once the major bottlenecks now holding back production have been removed, further limitations in terms of capacity will be encountered before a position of balance at satisfactory living standards will be reached. The problem will be partly that of restoring capacity, and partly of new construction to extend capacity beyond the levels of pre-war. The increment of new industrial capacity is required to make up for loss of overseas investments and other assets, and to develop satisfactory standards of living.

1. Industrial Production.

The most immediate limitation on the level of industrial production in most European countries is the supply of raw materials. Easily the most important of these is coal. Under present conditions very considerable imports of coal are required to maintain existing production levels; should imports be reduced there would be a serious retrogression. Deficiencies in coal are translated into deficiencies of almost everything else. Insufficient coal means insufficient steel, fertiliser, machinery, synthetic fibers, etc. Insufficient fertilizer and simple agricultural tools mean smaller crops. And so the circle widens. Consequently not only does Europe require unusual imports of coal, but the coal deficiency leads to abnormal requirements of many manufactured and agricultural products which Europe would produce for itself if coal and raw materials were available. A very high place in any recovery
plan for Europe must be given to a program for the restoration of coal production.

To some extent the production of coal in Europe may be increased under an aid program by the supply from the United States of certain critically needed mining or transportation equipment that will help raise coal output. But perhaps even more important in the stimulation of coal output would be the impact of a coordinated plan for European recovery in general that would include those administrative measures required on a broad front to increase the output of coal by increasing the number and efficiency of the miners.

European production of certain other raw materials may also be increased but for many of them, such as leather and natural textile fibers, Europe is normally an importer and will probably continue to be so.

So long as the coal shortage remains, steel will also be in short supply in Europe. This is an especially serious limitation on the speed of European recovery because of the large requirements of steel for industrial, agricultural, and transportation machinery and for structural purposes. Until the coal shortage is relieved the best that can be done is to insure that the limited supplies of steel available to Europe do actually go to those uses most effective in promoting the general recovery of Europe as a whole. Meanwhile the importation
from the U.S. of certain steel products such as machinery or transport equipment or the steel to produce such equipment, will be of high urgency since these products frequently constitute bottlenecks in production or in transportation.

One force working toward a high level of production may be a costless but effective component of a good recovery program. That is administrative efficiency and drive. Conditions in Europe to date have been such as to discourage rather than to encourage this important though intangible element of production. A well-conceived and strongly-backed program for the recovery of Europe can transform lassitude and futility into enthusiasm and purpose.

A joint plan for European recovery will lead to increased efficiency through other means as well. In particular, the working of the plan would lead individual countries to maintain a high level of efficiency in their economic affairs.

2. Food and Agriculture.

Shortages of food and agricultural products in Europe add to the difficulties of maintaining industrial production, and are themselves in part a consequence of production difficulties. Partly because of the weather and partly because of lack of fertilizer and equipment, crops in Western Europe are this year considerably below the pre-war level, even at the pre-war levels of production.
the countries of Western Europe normally require large food imports to cover an important part of their consumption. With population increased both by normal growth and by population transfers these countries require greater imports than ever, and at present the supplies from Eastern Europe are not available in anything like pre-war quantities.

The present rate of overseas imports of food into Europe have not been fully adequate to support minimum consumption requirements.

In view of the prospects for continuing world shortages in both bread grains and fats for several years to come, it is clear that determined efforts to increase supplies from European sources must be made. The deficit in food supplies falls primarily on the urban areas of Western and Central Europe.

If European industrial production is to be increased, food supplies to these urban areas must be increased.

In a number of countries, the position of urban consumers has been greatly worsened by something approaching a breakdown in the normal process of exchange of farm and city products. The inability of urban areas to produce what the farmer needs and wants means that the cash the farmer receives from the sale of his produce is not sufficiently attractive to bring about the voluntary sale of his produce on an adequate scale. The result has been the diversion of farm products into black market channels on the
one hand and increased retention on the farm on
the other. Some improvement in the general European
food situation appears possible through increased
exchanges among the various European countries,
although the prospect for an increase in the immediate
future in the supplies available from Eastern European
sources does not appear very bright.

It is therefore necessary that action be taken
to make more supplies available to urban consumers
in the Western and Central European countries from
indigenous production. This involves both increased
farm production and increased efforts to see that
farm produce gets to the market. The latter requires
a carefully worked out attack on the basic causes
which have led to the breakdown of the normal means
of exchange between town and country. It involves
increased production of goods the farmer needs,
and measures for stabilizing prices and halting in-
flationary price spirals.

With respect to increased agricultural produc-
tion, the possibilities of cooperative action by
the European countries and possible American aid
in the following fields deserve study.

(a) There is a continuing need for substantial
quantities of agricultural machinery and
implements. Increased supplies either
from the United States or from Europe
(particularly Germany) would help raise
agricultural output.
(b) Action to make increased amounts of fertiliser available to the European countries appears to offer the best single means of achieving greater production. The possibility of increased exports from the U.S., if necessary in preference to shipments of food, should be studied. More nitrogenous fertiliser might be produced in Germany if more coal were available. Potash and phosphate are also available from sources in Europe and North Africa.

(c) In view of the shortages of labor in certain countries and of unemployment in others, an important contribution to increased agricultural production could presumably be made through improved facilities both for permanent migration and temporary movement in time of peak labor needs.

B. Transportation.

In most of Western Europe there is barely sufficient organized transport to handle current limited requirements. In Germany, even important civilian movements cannot be fulfilled. Rail equipment throughout Europe is not only limited in amount but is generally in bad repair and the percentage of unserviceable equipment is tending to increase. A general European trade revival can be expected to face severe bottlenecks at an early date if vigorous
action is not taken in this field. The output of transportation equipment and parts in European industrial centers is far below present needs. Here again, the key to betterment seems to lie in the increase in coal production and revival of industrial production. At the outset, particular emphasis should be placed on repair shop equipment and steel to be made available for repairs. While the U.S. may not be able to furnish substantial amounts of completed rail transport equipment, it can probably make a substantial contribution by supplying some components and repair parts and some equipment to expedite European production of transport equipment.

From the standpoint of the overall effective use of Europe's transport system, highway and inland waterway facilities appear not yet to be fully utilized, and these forms of transport could perhaps carry more of the load if efficiently coordinated as between various countries (including occupied areas) and with rail traffic.

The great European waterway networks—especially the international rivers—are handling only a small percentage of pre-war traffic. Facilities, while curtailed, are sufficient to handle heavier burdens provided proper international agreements can be reached regarding traffic movements, economic use of equipment, and the solution of difficult foreign exchange problems.

Present international arrangements covering traffic movements between European countries are inadequate. With the exception of traffic between France, Belgium,
and Holland, the pre-war international conventions have not been reestablished. The European Central Inland Transport Organization, which was to have temporarily replaced the conventional system of agreements, was helpful in maintaining a minimum of international traffic, but its work was piecemeal and inadequate from the standpoint of general recovery.

Ocean shipping does not constitute a serious material bottleneck in European recovery. The problem is rather one of the distribution of available tonnage between United States and foreign ownership and of the drain on the foreign exchange reserves of the European countries involved in the use of United States tonnage for handling the major parts of shipments from this country to Europe.

Approximately 1,000,000 deadweight tons of oceangoing vessels comprising some 150 vessels, were under construction in European yards at the beginning of this year, and approximately 6,000,000 deadweight tons are understood to be under order in those yards. Presumably, therefore, Europe’s own shipping capacity will have increased considerably by the end of any period of European recovery. This being the case, there would appear to be no need for U.S. direct aid to Europe for shipbuilding. In fact, Europe could save some of its resources and imports now being devoted to shipbuilding should the United States be willing to sell some of its better vessels in long supply similar to types on order in European yards.
C. Intra-European Exchange Facilities.

Any European recovery program which relies extensively on U.S. aid will bear with it the danger of encouraging an unhealthy unilateral orientation of the economies of the participating countries on U.S. economy, and possibly vice versa. This is particularly true in present circumstances. All of the arrangements for Intra-European commercial exchange have been disrupted by war; there is a wide shortage of the only generally acceptable medium of exchange—namely convertible currencies or gold; and there is a general lack of export surpluses in Europe itself. This has already led to a state of affairs in which best advantage is not being taken of Europe's own resources. For instance, European countries now committed to bilateral trade agreements seem unable to take full advantage of possibilities for increasing the volume of their production by finding assured foreign outlets for unutilized or underutilized industrial capacity. There are even cases of certain types of food surpluses, such as Scandinavian fish, which cannot be utilized in Europe for lack of suitable exchange arrangements. It may be argued that the purchase of fish as compared with foods of higher caloric value is an uneconomic use of limited funds. However, it represents a source of food available in Europe; and Europe must be able to prove that maximum use is being made of its own facilities before further aid can properly be expected from the United States.
The following possible remedies for this situation deserve mention:

1. **Multilateral Clearing.**

   One of the most commonly suggested answers to this problem for the short term is some form of multilateral clearing, designed to widen the area of currency convertibility pending the time when general arrangements envisaged in the Monetary Fund agreement can become fully effective. At present, intra-European trade is conducted almost exclusively through an intricate network of bilateral agreements. This system is inflexible and essentially arbitrary in its economic effects. In many respects it tends to limit, rather than to encourage, intra-European exchanges. Consisting as it does of a patchwork of short-term agreements, it gives no assurance of permanency in the channels of trade which it creates.

   Presumably these deficiencies could be substantially remedied by the establishment of a multilateral clearing system, assuming that currency revaluations and other corrective measures, if they prove necessary, are made a part of the arrangements. In the initial period, while export surpluses are still few and meagre, such a system would not attain full importance. As production recovers, the part which it could play in general European rehabilitation should become greater. Eventually, it should come to carry a good part of the weight of a healthy and self-sustaining European economy. But even at the outset, it should be beneficial in facilitating more effective use of the limited existing resources.
If these clearing arrangements should not involve outside support, their exact nature would be primarily a matter for negotiation among the European nations themselves. It is possible, however, that a European clearing center would be found to require a working fund in the form of dollar exchange or some other acceptable medium. In this case, this Government would have to give careful scrutiny to the character and general soundness of the proposed arrangements.

2. Stability in Exchange Rates and Domestic Price Levels.

The European price system is seriously unbalanced. To the inevitable war-time distortions there has been added, in many countries, post-war inflation in varying degrees. Exchange rates as a consequence do not necessarily bear any close relationship to comparative purchasing power.

It is essential that steps be taken to restore internal currency stability within European countries. Again, this is largely a matter for the Europeans themselves. An obvious example of the need for such reforms, however, is Germany. Here the United States can play a direct role, and this Government should take the initiative in promoting among the occupying powers a program of currency and price reform in as wide an area of Germany which would place that area in a better position to contribute to European recovery.
3. Trade Barriers.

Tariffs and other trade barriers are not now an important limiting factor with respect to intra-European trade, since in most cases both the volume and direction of trade is influenced primarily by the terms of bilateral agreements. With increasing recovery of production and restoration of price stability, tariffs and other trade barriers will probably again become a significant impediment. The reduction or elimination of these barriers envisaged by the projected International Trade Organisation is therefore of significance to European recovery from the longer-run viewpoint, and the eventual formation of a European customs union should be held in view as a long-term objective.

D. Interim Deficits in Imports.

Only gradually as production is built up can the individual countries be expected to satisfy more of their own needs for consumption and raw materials and to produce exports to pay for the remainder. Meanwhile merely to maintain existing rates of production; let alone to increase these rates, they will require imports of staple commodities, particularly food and raw materials, beyond those which they can finance out of their own resources. As European production increases, these margins of abnormally financed imports should decline; and if a program for European recovery is to be a complete one, they should be substantially eliminated by the time the program comes to an end. The goal of the program should be a state of
affairs in which essential imports and the servicing of foreign indebtedness could be covered by exports or services from the importing state or by normal forms of finance. Thus U.S. aid with respect to consumption goods should start at substantially the present level of deficit and decline to zero at some stage of the recovery program.

The importance of this type of aid in European recovery must not be underestimated. Only if the European governments concerned can have the assurance that these abnormal needs will be met in reasonable measure over a definite and prolonged period will they be able to apply their energies and resources effectively to the increase of production on which their future ability to support themselves must rest. It is in this field that U.S. aid will be most needed and can be most effective.

The cost of shipping to carry these bulk cargoes to Europe represents another important part of the problem. At the present time, U.S. Government-owned ships chartered to American operators are carrying two-thirds of the wheat and coal cargoes to Europe. This service, performed at high costs, involves a dollar drain on the European countries running into the hundreds of millions of dollars. The transfer of U.S.-owned ships to European operation would permit Europe to take another step toward supporting itself and would reduce the total cost of U.S. aid to Europe.
IV. GENERAL CONSIDERATIONS GOVERNING UNITED STATES AID

The principal considerations which should determine the nature of United States aid to a European recovery program are the following:

A. Our aid should cover only that area of the total needs of the program which clearly cannot be met by other resources available to the participating nations. Claims on U.S. supplies should be carefully screened to see that there is no other source from which the desired supplies could advantageously be obtained.

B. Our aid should be concentrated, as far as possible, in a few key items which will have the maximum immediate effect in promoting European recovery. This will contribute to simplicity and clarity of concept. It will also have the advantage of restricting the number of fields in which this Government becomes associated with the needs and problems of European governments. By restricting U.S. aid to a few key items, it will be possible to leave to the Europeans the responsibility for handling the needs of their economies in a multitude of lesser items; and at the same time U.S. assistance in meeting the major needs will free resources through which the minor ones can more easily be met. Particular attention should be given, in selecting the items for U.S. aid, to the critical bottlenecks which impede general European production and distribution.

C. The emphasis of the whole program of U.S. aid should be to help Europe to help herself. Every
effort should be made to avoid forms of assistance which would increase, rather than decrease, the abnormal economic dependence of these areas on the United States. Whenever there is a choice between supplying Europe with goods for consumption and supplying her with the means to produce those goods herself, the latter course should be chosen unless cost is prohibitive.

D. Our aid should be directed wherever possible to those branches of economic activity—as for example, coal—the effects of which are not to relate not just to a single country but to be radiated generally across international borders and to affect European economy as a whole. These branches of activity will tend to be identical with those which the European nations themselves will have chosen to approach through international, rather than purely national, progress. If U.S. aid is directed generally to such branches of activity, the problem of allocations as between individual European countries will be simplified; our aims in extending assistance will be clearer to everyone; we will have in effect a collective endorsement by the European nations of the need for the particular type of aid in question; and it will be harder for trouble-makers everywhere to misrepresent the motives, and to disrupt the effect, of such assistance as we may grant.

E. Our aid must be closely related to our resources and to the needs of a healthy domestic economy. In this respect, careful consideration must
be given to the eventual results of the studies which the President has ordered to be conducted on the relation of foreign aid to our domestic economy. If the results of these studies indicate, as they may, that certain restrictions of domestic consumption and the reimposition of certain economic controls are necessary to the carrying out of a program of aid to Europe, then the inconveniences involved will have to be weighed against the probable consequences of our failure to extend such aid at this time.
V. FINANCING OF UNITED STATES AID

The financing of U.S. aid to a European recovery program should spring from the character of the aid itself. There will be need for varied approaches to the question of financing, adapted to the particular form of aid to be granted and to special circumstances which may prevail. There can be no hard and fast rule that can be put forward which would be useful and each major item will have to be examined on its merits. But the following general principles might provide a useful criterion in studying individual questions.

Insofar as U.S. supplies are made available simply to make good current deficiencies of food and raw materials, on a declining scale, in the interim pending the requisite increases in European production, they ought generally to constitute straight grants-in-aid. This conclusion flows from the function which they fulfill, which is to carry these peoples over to the time when they will be able to produce enough to pay for their own needs.

In areas where the receiving governments could make at least partial cooperation in kind, without prejudice to European recovery, they should be asked to do so.

Programs designed to bring about a direct increase in production present a somewhat different problem. There may well be instances where the aid granted could lead directly to increased production, either
In individual enterprises or groups of enterprises, and where this resultant increase in production would make repayment entirely possible and desirable on a long-term basis. Such projects would be suitable for consideration by the International Bank or other public or private agencies of international finance, and no project should be financed by this Government where there is a possibility of such outside financing.

Where reconstruction in certain fields is required simply in order to enable a country to balance its international accounts now in deficit, the increase in production capacity should not be mortgaged to pay back the loan. It should be noted that one of the overall purposes of a U.S. aid program at this juncture would be to help put Europe back on its feet. This will not be accomplished if, at the end of the program finds the European countries saddled with new long-term obligations to this Government arising out of the program itself. There is little point in this Government pursuing, in relation to aid to Europe, a course which would only serve to increase the dollar exchange problem on a long-term basis.

In general, assistance in the form of grants-in-aid should be understood to involve the planning by the U.S. Government of procurement and shipment according to agreed schedules. It should not be required, however, that all commodities be procured in this country. On the contrary, there might be instances
where it would be definitely to our interest to undertake outside procurement. Such instances might arise where substantial savings might be made in the cost of the assistance granted or where commodities are in short supply in the U.S.
VI. CONDITIONS OF UNITED STATES AID

U.S. economic assistance may be granted to groups of European states acting in concert and taking joint responsibility for the utilisation of the commodities received, or it may be granted directly to individual countries. Probably, both forms of assistance will be required. In either case, there will be need of clear and firm understandings as to the amount and nature of the aid to be rendered, the purposes for which it is being made available and the ways in which it is to be utilized. The problem of working out these understandings will assume different aspects in the case of groups of states and in the case of individual states, and must therefore receive separate treatment in this discussion.

A. International Groupings.

When U.S. aid is granted to groups of states acting in concert or on the basis of a group program, the problem of the terms under which such aid is rendered is greatly simplified. In such cases, the fact that a number of European countries have been able to agree on the use to which our aid is to be put is itself the best guarantee that it will be used effectively. A broad section of the European public will then have an interest in seeing that the aid is used economically to further European recovery, and will be quick to discern and remedy any tendency toward misuse or wastage.

For this reason, the main consideration to be borne in mind in connection with any aid granted to groups of states, or to individual states under arrangements jointly negotiated, is that programs of this nature
should first be evolved and accepted by the European states concerned and that U.S. aid should be an integral but supplementary relationship to them. In this way, responsibility for the success of the programs themselves, as well as for the effective utilization of the aid, will rest clearly with the receiving states. There can then be no suspicions or doubts from the European side as to the motives or the soundness of concept underlying aid from this country; and at the same time Americans will have the security of knowing that wide circles of the European population, bound together above all by a real and urgent interest in early economic recovery, are committed to the effective use of the assistance given.

B. Individual Countries.

In the case of individual countries, the problem of the terms of U.S. aid is more difficult. Here European domestic political factors enter in to complicate the utilization of aid received as well as the relationship between giver and receiver. Here we encounter the peculiar sensitiveness arising out of national pride and an understandable concern for the preservation of national sovereignty. For these reasons, particular care must be taken to see that the terms under which U.S. aid may be extended to individual countries are reasonable, simple, and clearly related to the goal which both giving and receiving states have in common: namely, the maximum effectiveness of the aid granted.

In determining the condition governing aid rendered to foreign countries in the past, we have had to do
primarily with shipments of a purely relief nature for essentially emergency purposes. It was not envisaged
that those shipments would stand in relation to any particular national programs of a long-term nature or
to any over-all continental recovery programs. For this reason, we have few precedents to go on.

In connection with the kind of program discussed in this report, emphasis is indicated above all on the ele-
ment of protection embodied in Section 3(e), of Public Law 84 of May 31, 1947, relating to the appropriation of
$324,000,000 for European relief, namely, that each re-
cipient country "has taken or is taking, insofar as poss-
able, the economic measures necessary to reduce its
relief needs and to provide for its own reconstruction".
If U.S. aid can be made to rest firmly on this sort of
assurance, taken in conjunction with a broad inter-
national scheme, and subsidiary national schemes, for
general European recovery over a given period, there will
be a substantial guarantee at the outset that the aid will
be effectively used.

This point brings up the whole delicate problem of
the relationship of U.S. aid to the policies and methods
which the individual receiving countries apply in the
handling of their own domestic economic problems. This
involves the question of efficiency in fiscal and economic
administration. It also involves the broader problem of
domestic economic and social policy in general.

It is clear that in the approach to this problem
there are two extremes, both clearly to be avoided. Too
great a preoccupation with the domestic problems of the
receiving governments would tend to lend substance to charges that this Government was seeking a degree of dictation over the policies and acts of other governments. To ignore this factor altogether would, on the other hand, constitute an open invitation to the abuse of U.S. readiness to assist and an act of irresponsibility toward the real needs of the European peoples concerned, as well as a lack of respect for the need for conserving the resources of this country. It is between this Scylla and this Charybdis that anyone extending aid to the countries of post-war Europe must steer a prudent course.

With respect to the problem of administrative efficiency, the question of what is or is not efficacious in the administration of economic life within a given country is a controversial one, even domestically. The elements of these issues are naturally more obscure to outsiders than to the peoples of the respective country. It would be dangerous for any foreign government to draw arbitrary conclusions in these matters and even more dangerous for it to attempt to foist its own conclusions into international contractual obligations.

In deciding initially whether or not it is even useful to the foreign nation concerned that U.S. aid should be extended, this government cannot refrain from examining the extent to which that nation is united domestically in the determination to make the best of its own opportunities. And from this standpoint, Europeans must recognize that the degree to which realistic national programs of economic betterment exist,
and the degree to which they have the endorsement and support of the main forces of internal political life, including the main bodies of organized labor, must weigh heavily in the determination whether the extension of aid to those programs would be effective.

Where weakness of the internal political structure or lack of qualified personnel render it difficult for a government to devise or implement such a program with its own resources, its readiness to seek and accept assistance from qualified and disinterested outside sources will also have to be an important consideration.

The broader question of national policy with respect to the general system of economy deserves a somewhat similar answer. The people of the United States, whose economic system is so intimately associated with the circumstances of their historic development, will be the first to understand that no country can be a wholly adequate judge of any other country's needs. The freedom of every people to work out its own mode of life is the cornerstone of American political philosophy. In endeavoring to aid European nations, this country must take its neighbors as they are at this stage of their historical and social development and must respect their freely expressed decisions as to the economic and social systems which they hold to be best for themselves.

But there are three points at which this Government must observe caution.

In the first place, there is a difference between on the one hand, economic and social reforms which
reflect a sincere desire for economic betterment and
which hold out reasonable promise of its early achieve-
ment of that betterment, and, on the other, programs
of a purely political nature which are neglectful or
contumacious to economic values. There are no general
criteria by which these categories can be readily dis-
tinguished one from the other, and it should not be
the part of this Government to constitute itself a
judge of these questions. But a program such as that
contemplated in this report demands the utmost that
every European nation can contribute in productivity
at this time, and the American people are bound to be
influenced by whether European nations are doing a
good job in helping themselves.

Secondly, this Government cannot give direct aid
to costly programs of social change carried out by
minorities having no plausible claim to represent the
will of the majority of the people.

Finally, while the feelings of the majority in any
country as to the economic system desirable for that
particular country deserve our full respect, we cannot
take the same attitude toward an attempt by that coun-
try to apply its concepts to others who are not now in
a position to determine their own economic and social
future. In such cases the principal criterion must be
the vigor of the effort to make a full contribution to
general European recovery.

C. The Principle of Minimizing Aidments.
While it would thus be clearly inadvisable that
this Government should attempt to constitute itself the
judge of domestic acts and policies of other governments or to make its aid to those conditional on specific undertakings with regard to those acts and policies, it is only right that the receiving governments, in accepting right of disposal over resources which are in short supply for the world at large, should feel and acknowledge an obligation to make the most of these resources, and of all others at their disposal. Thus the arrangements by which aid is granted might properly contain an element of recognition of this proposition. This element should be implicit, rather than explicit. It should be built into the arrangements themselves. It is only just that this should be done, for in any arrangements which envisage U.S. aid over a period of years on a large scale, there is a similar implication of obligation on the people and Government of the United States to make available the supplies specified. And it is clear that this implied obligation should work both ways.

This end should be achieved in an effective and unexceptionable form if

(a) it could be arranged that a considerable part of the aid from this country, particularly that part which relates to the satisfaction of the interim consumption needs of the receiving countries, would be extended on a declining scale, as suggested in Section III, 8 above, and

(b) it were to be clearly understood by the public as well as by the respective governments that further aid of this nature would not be forthcoming after the stipulated termination date of the program and that the responsibility for seeing that it would no longer be required after that time would rest squarely on the receiving government.

This concept would be economically sound if the recovery program contains, as it should, adequate
provision for the increase of production in Europe throughout the period of its operation and for the expansion of intra-European exchanges.

If this principle were firmly accepted and adhered to, a sense of responsibility to the welfare of its own people would leave the receiving government no choice but to make the most of the aid received, both for production and for consumption needs.

This solution has the additional advantage of making gradual the transition from a stage at which abnormal means of financing imports must play a very large role in the economy of the receiving countries, to a stage where they will play none at all. At the same time, it would ease the process of adjustment from the standpoint of this country.
VII. SPECIAL CONSIDERATIONS WITH RESPECT TO CERTAIN INDIVIDUAL COUNTRIES

Arrangements outlined above might serve as a general guide in the case of all European countries willing to participate in the program such as that now under contemplation. Each of these countries naturally has special problems, which will require special consideration. In certain instances, however, the peculiarities of the individual situation are so great that they require special treatment in this report. This applies notably to Great Britain, Germany, and Austria.

a. Great Britain

The relationship of Great Britain to any program of European recovery requiring U.S. aid differs in at least two important and obvious respects from that of the continental countries:

1. British dependence on foreign trade and her expected trade deficit over the next few years will be larger than that of any other country;

2. The repercussions on international trade and on international trade policy of a British attempt to meet her trade deficit without external assistance would be very much larger and more serious than would follow a similar attempt by any other country.

Both these factors were recognized in connection with the British loan and influenced the decision of Congress concerning the loan. The principal reasons for the magnitude of the British trade deficit are
simple and obvious. The dependence of the United Kingdom on imports is greater than that of any other large country: British losses during the war of certain important means of external payment were larger than those of any other country.

In the years immediately before the war the ratio of the value of British imports to the national income was about 80%. The same ratio for the United States was less than 65%. During the war Britain's principal invisible exports, including shipping, banking and insurance services, and her income from foreign investment, suffered a drastic decline. The average yearly trade deficit of the United Kingdom for the period 1938-39 was approximately two billion dollars. This deficit Britain normally succeeded in covering by the invisible exports mentioned above. Since this source has decreased radically, the United Kingdom is faced not with the problem of restoring pre-war exports which is the typical foreign trade problem of the continental countries, but of raising exports to 1935 or more of the pre-war level.

All these considerations are well-known, having been raised in connection with the British loan. What is not well-known or widely realized is that the loan is falling far short of accomplishing its purpose. In fact, the credits made available to the British Government, according to evidence now available, will be exhausted early in 1948, if not sooner.

The principal reasons for this inadequacy, none of which could be foreseen at the time the loan was made, are as follows:
(1) The level of wholesale prices in the United States has increased in the neighborhood of 40%. The effect of this has been to reduce the purchasing power of the pound by almost 20%.

(2) Extraordinarily adverse weather conditions have markedly reduced domestic food and feed production in Great Britain for the 1947 crop year.

(3) The lagging economic recovery in Europe has slowed the expansion of British exports.

(4) Dollar commitments larger than expected have been involved in settlements with sterling area countries and in meeting Britain's occupation obligations in Germany.

To the extent that aid to Europe takes the form of commodities, Britain can gain from this aid up to the amount of the specific commodities which she normally obtains from the United States and which are allocated to her under a European program. This would presumably include food, possibly a small amount of coal, shipping services or ships, if they were included in the aid-in-kind. It is impossibly to estimate the contribution which these might make to the British problem until the European studies have been completed, and a program recommended.

Should the aid take the form of dollar support of a European clearing arrangement, Britain could be expected to be one of the principal beneficiaries. British exports in 1946 to the other countries participating in the Conference of European Economic Cooperation exceeded by more than $400,000,000.
British imports from the same areas. Some of this excess was paid in drawing down sterling in 1945, some in gold, some on credit. If larger European imports from Britain could be financed, though some of the deficit would continue to be paid for in sterling, British earnings of dollars would be increased.

Over and above these types of aid for Europe in general, this Government might well assume the British share of responsibility for supplying the U.S.-U.K. zones of Germany with imports which the German economy cannot finance. This action would relieve the drain on British resources by an amount difficult to calculate but which might initially come to £250 million per annum.

The question remains whether even these measures will suffice to place Britain on a satisfactory self-supporting basis. No definitive answer can be given to this question. On the one hand, certain favorable factors should be recognized: British exports are continuing to increase (though the rate of increase has not fulfilled expectations); one of the results of an effective European recovery program will undoubtedly be a further substantial increase in British exports; and finally, modernization of plant and equipment, which should and must be one of the primary objectives of the granting of additional aid by the United States, will facilitate export recovery. On the other hand, Britain is extraordinarily dependent on foreign trade in a world
The economy whose volume of foreign trade has been notoriously unstable. Thus there are many uncertainties. And before the measures mentioned above could take effect, several months of continued heavy drain on British resources must ensue.

The attempt to tide Britain over her present difficulties by further assistance along the lines outlined above appears to be the best course that can be followed and one well worth the calculated risk involved. If, however, it does not succeed, then the whole position of Britain with respect to many questions of vital interest to this country and Canada will inevitably have to be a subject of reconsideration. Such reconsideration should take place well in advance of the lapse of the period of any new arrangements that may be arrived at.

For this reason, this Government should stand prepared, in the event that these new arrangements for financial assistance do not prove adequate, to join with the Governments of the United Kingdom and of Canada in an examination of their mutual problems from the widest perspective.

B. Germany.

The importance of Germany to general European recovery is well-known and requires no statistical illustration. No impartial student of Europe's pre-war economy can fail to appreciate the vital significance which German productivity and German markets have had for the well-being of the continent, and even a superficial glance at Europe's post-war
economic situation will be sufficient to show that it is idle to talk of any real reduction in the abnormal economic dependence of the leading indus-
trial nations of the continent on outside support as long as this tremendous center of European pro-
ductivity lies prostrate.

This is not a political judgment but a bitter economic reality. And it would be improper to ask the American people to support measures ostensibly designed to bring about European recovery which did not include the restoration of the ability to con-
tribute to that recovery either of Germany as a whole or at least of those parts of Germany subject to the control of the western powers. This is aside from the fact that the U.S. and U.K. zones of Germany constitute in their present state a burden which the American people cannot be expected to bear much longer and that for this reason measures would now have to be taken in any event to reduce the dependence of the Germans on American tax-payers.

The primary objective of U.S. policy toward Germany is to prevent a resurgence of German militarism and to see that the Germans never again menace the other peoples of Europe and the world. The draft treaty on disarmament and demilitarization of Germany which has been put forward by this Govern-
ment in recent meetings of the Council of Foreign Ministers is an emphatic manifestation of this policy. The suggestions set forth below, designed to ensure that Germany contributes to European
recovery, are regarded as being entirely within
the framework of this security policy. Nothing
contained in them is intended to constitute or
imply the slightest deviation from the principles
of that draft treaty.

This Government has recognized from the start
that recovery in the allied countries should be
given precedence over recovery in Germany. The
present situation in the U.S.-U.K. zone, however,
in which industrial production is less than half of
pre-war, food supplies are considerably below the
minimum requirements for health and efficiency,
and foreign trade is only a trickle of its former
dimensions, represents a degree of retardation in
the recuperation of German production far greater
than any reasonable system of priorities would
warrant. Between this point and a point where it
could be claimed that the interests of German
economy were being favored over those of Germany's
present neighbors, there lies a wide gap most of
which must be filled before general European
recovery can become a reality.

The extent to which it may be possible to open
the road to economic recovery in Germany as a whole
will be determined by the Council of Foreign Minis-
ters in the fall of this year. Meanwhile, there is
no point in considering questions involving the
Soviet zone.

In present circumstances, the question of Germany's
relationship to European recovery can only be examined
in terms of the western zones. This question should be made the subject of tri-partite conversations at an early date. These conversations should not look to the conclusion of any formal written agreement. They should be designed to clarify the positions of the respective governments and to develop, if possible, a community of views as to the measures which ought to be taken. It should be left to the respective governments to translate such community of views into action in the areas of Germany subject to their authority.

In entering on such discussions, this Government should give most serious and sympathetic attention to the feelings of the French Government with respect to questions of military and economic security. On the economic plane, however, there can be no avoiding the fact that some further restoration of German production is essential to European recovery.

Among the measures which seem to be indicated if German production is to be increased are the following:

1. There should be a simplification of Allied control and an increase in German responsibility for administration. It is clear that the combination of two military governments in the U.S.-U.S.S.R. zones operating through central bizonal agencies in economic affairs, and through diverse patterns of zonal agencies in other questions, is not adequate, and cannot be made adequate even with the best of will and efficiency, to bring about the necessary increase of production. It cannot assure the requisite simplicity and economy
of administrative effort. It involves too great a diffusion of responsibility and authority. It is not designed to encourage that sense of responsibility, confidence and opportunity on the part of the Germans themselves which is indispensable to any real economic progress in that area.

2. Whatever the sources and channels of authority, care should be taken to see that a workable set of economic controls is established. These should include more centralized control over the allocation and use of key commodities, so as to ensure that German resources and U.S. aid will be most effectively used to increase German production and to bring about a real German contribution to the general European recovery program.

3. There should be carried out a financial reform and readjustment of internal prices designed to provide adequate private incentive for production and to make possible a normal development of foreign trade.

4. There must be an early clarification of the question of reparation removals from the western zones. It is relatively unimportant just where, within reasonable limits, the line is drawn for reparation removals. But it is important that this line should be definitely established and made known in the near future.

5. Everything possible should be done to expedite adjudication of demunificaton questions, and particularly the clearance of cases of minor Nazis. This might conceivably
Involving further amnesties, the dimensions of which would have to be determined by the zonal Commanders in the light of the requirements set forth above. In addition to this, the denazification laws in the U.S.-U.K. zones should be so modified as to make it possible for German technical skills to be adequately enlisted in economic life. The employment of persons in capacities commensurate with their professional qualifications can be achieved, on a far wider scale than is presently the case, without giving administrative or political power to persons of pronounced Nazi background.

6. Existing barriers to foreign travel, communication and trade should be removed, except in cases where important considerations of security are involved. The German authorities should be permitted to open and maintain, under allied supervision, commercial agencies in foreign countries.

7. Special arrangements should be made with respect to coal production. In these arrangements, recognition should be given to the need for enlisting a greater spirit of cooperation and responsibility on the part of the Germans themselves. From this standpoint, it is particularly important that provision be made for improvement in living conditions and in labor-management relations in the Ruhr. These arrangements should be worked out in consultation with the other Western Allies.

8. It should be made possible for the Western zones of Germany to be included in any new arrangements.
which may be arrived at for multilateral clearing
or any other new facilities for promoting exchanges
among the European nations, and in any suitable inter-
national projects for increasing production in Europe.

The above list of possible measures is not meant
to be exclusive. It is naturally subject to modifica-
tion or elaboration, particularly in the light of the
views of other Western European nations. But it is
difficult to see how Germany could be placed in a
position to make a really useful contribution to
European recovery by any means which do not meet in one
way or another the major part of these requirements.

It should be a part of any program of U.S. aid to
European recovery that the United States would assume
direct responsibility for the financing of shipments
from the dollar area to the bizonal area in Germany,
with appropriate alterations in administrative
arrangements. This would relieve the British exchange
situations and would simplify to that extent the over-
all problem of U.S. aid to European recovery. And it
would clarify the anomalous relationship between the
U.S. and the U.K. in Germany.

In addition to this, arrangements should be made
for the early removal of all displaced persons from
the western zones of Germany. This is highly desirable
not only on moral and humanitarian grounds, but also
to eliminate the present drain on food, housing, and
other factors that enter into production. The U.S.
Government should be willing to assume a just share
of the responsibility for solving this problem. This
would presumably require legislation along the lines recommended to the Congress by the President in his message of July 7, 1947, concerning the admission of displaced persons to the United States.

C. Austria

In view of the recommendations of this paper with respect to Germany there may be some question as to the relation which it is conceived that Austria, as another occupied country, should bear to United States aid in European recovery.

It is not conceived that the position of Austria, which has a government of its own, need in any way be affected by the fact of military occupation. There is no reason why Austria’s possibilities for contributing to European recovery and Austria’s own needs should not be studied just as those of any other European country willing to take part in such a program and why the Austrian people should not benefit in full measure from the effects of the program itself. This Government should stand prepared to grant aid to Austria just as to any other European country, in accordance with the principles outlined in this report.

This assumes a readiness on the part of all the occupying powers to fulfill their commitments with respect to Austria.
VIII. PRIVATE PARTICIPATION IN UNITED STATES AID

The suggestions advanced in this report have necessarily related primarily to assistance which might be rendered to European countries by the United States Government. The problem is obviously one involving action primarily by the Government. However, American private citizens and private business can make a real contribution to the solution of the problem in the following ways:

A. There are many important plants in Europe which are U.S.-owned or in which there is a U.S. interest. U.S. business can help in the European recovery program by repairing war damage to these plants and putting them back into production as quickly as possible. In some cases, the time within which plants can be restored to production can be speeded up by a supply of materials by parent companies in this country. The financial cost involved may not be large and may not, therefore, in the magnitude of the total problem, appear significant. Nevertheless, what counts is getting production going; and providing the proper tools at the right time may be of the greatest significance.

B. As has been pointed out in other parts of this report, a key element of the entire problem is putting existing plants back to work. European countries are in need of a wide variety of industrial equipment and supplies in order to repair war damage and under-maintenance over a long period of time. Most of this
can come from European sources but, if bottlenecks are to be broken and production is to expand smoothly, Europe will have to import some of the equipment and supplies from the United States.

The demand for such items will in many cases be non-recurrent and, therefore, not as attractive commercially to U.S. manufacturers as the supply of normal domestic and export markets. However, it is quite clear that the willingness of U.S. business to accept and give priority to such orders may be of critical importance in getting European production going. It is certainly preferable that such priorities be established on a voluntary basis than through government control. There would appear to be need for the establishment of machinery, perhaps in the form of industry committees, to provide for consultation between the industries concerned and the United States Government, with a view to insuring maximum coordination of Government and private effort. Such committees might furthermore, in consultation with European governments and private industry, be able to expedite the supply of goods from the United States by dealing with the problems arising from differences in European specifications and other similar technical problems.

C. While the countries most concerned are the most port advanced ones which have relatively little need (other than that just suggested) for foreign technical, scientific or managerial assistance, there may be instances even in those cases where assistance in connection with a European recovery program could be rendered
directly by U.S. private business or by scientific or charitable organizations in this country. And it is already clear that with respect to the long-term development problems of areas of the world beyond the confines of Europe this form of assistance will be called for in much larger proportion.

At the present time, there is a distinct lack of adequate machinery through which the sources of technical and managerial ability in this country can be tapped and that ability made available to foreign governments and peoples in an organized and effective way. Since it is obviously desirable, even in the case of Europe, that the private resources of this country be brought into play to the maximum extent, a study should be undertaken at once of this problem.

This study should examine the advisability of the establishment by American citizens of an instrumentality maintaining close contact with this Government, as well as with private organizations and associations interested in this field. The services of such an instrumentality might be used to make available at the request of foreign governments, in Europe and elsewhere, U.S. technicians in all fields that relate to human welfare: engineering, business, finance, public health, agriculture, reclamation, education, etc.

In connection with the furnishing of technical assistance, the United Nations and the specialized agencies, such as the P.T.O., the International Bank and the International Monetary Fund may play an important
part in recruiting experts not only from this country but from other member nations. Any instrumentality along the lines suggested above should work closely with the international organizations.

D. American citizens, acting individually and through organisations, have made a most generous and effective contribution to the urgent problems of Europe through gifts of funds, of food, and other goods needed by the Europeans. It is clear that these needs are still continuing, and it is to be expected that our citizens will continue as in the past to accord them a sympathetic reception.
IX. FURTHER IMPLICATIONS OF UNITED STATES AID TO EUROPE

Measures as far-reaching as those discussed in this report should be carefully examined for their implications and incidental effects in areas of U.S. interest other than those to which they are immediately directed. In this respect the following considerations deserve attention:

A. United States Domestic Economy.

As stated in other sections of this report, careful attention will have to be given to implications of a program of U.S. aid to Europe for the economy of the United States. The eventual conclusions of the studies which the President has directed be conducted on the relation of foreign aid to domestic economy will become a useful guide to ways in which the program to get Europe back on its feet can best be adjusted to our own resources and the needs of a healthy domestic economy.

A European aid program will have implications for United States economy with respect to both cost and benefits.

The costs need no elucidation. They may include not only the financial sacrifices which must be made by the taxpayers of this country but also the restraints in the form of controls on exports, and possibly on consumption, which may have to be established.

As against these costs there should be weighed not only the negative factor of the alternatives but also the positive factor of the possible benefits to U.S. economy. Only if European recovery can be achieved will there be
possible the development of a world trade situation in which Europe and the U.S. can enjoy normal economic relations on a mutually beneficial basis. Past experience has taught us that the U.S. cannot achieve full prosperity in a world of depression.

To many, the probable costs of a program along the lines envisaged in this report may seem severe. But they would be short-term costs, calculated in years. The possible benefits would be mainly long-term benefits, calculated at least in decades; and no one can doubt that if they are forthcoming at all, they will outweigh the costs many times.

B. The United Nations.

The basic principle underlying the United Nations is that of cooperative international action to deal with common problems. This principle is clearly set forth in the preamble and Chapter I of the United Nations Charter.

It was in the spirit of this principle that Secretary Marshall suggested on June 5 that the European nations seek to work out, as a basis for possible further U.S. aid, joint proposals designed to foster European recovery. The considerations outlined in the present report are conceived in the same spirit and in full conformity with the purposes and principles of the United Nations Charter.

The interest of the United States in developing the United Nations and its specialized and related agencies as rapidly as possible to the point where they may effectively discharge their responsibilities for promoting and harmonizing international cooperative action in the
economic field has been repeatedly made clear. The United States favors the maximum utilization, consistent with the requirements of the particular problem at hand, of such instrumentalities as the Economic and Social Council, the Economic Commission for Europe, the Food and Agriculture Organization, the International Bank and the International Monetary Fund.

In the case of European recovery, the urgency of effective international action is such that delay might be fatal. The European nations which have taken the initiative in organizing discussion of common economic problems on an international basis in response to Secretary Marshall’s suggestion found it advisable to inaugurate these discussions through a temporary organization rather than through UN bodies. This decision was one which deserves respect in view of the background of circumstances against which it was taken; and events subsequent to the inauguration of the preliminary discussions have tended to confirm the necessity for this approach at this time. This should not, however, constitute a reason for doubt or discouragement as to the long-run usefulness of the UN bodies in this field. On the contrary, if there can be evolved at this time a constructive international approach to the economic problem which are weighing so heavily on the peoples of Europe, this in itself could not fail to bring about conditions within which the UN could operate most effectively. In the meantime, UN organs and related agencies can play many useful roles in relation to specific aspects of European recovery.
The International Bank, the International Monetary Fund, the Food and Agriculture Organization of the U.S., and the projected International Trade Organization may all have significant roles to play in connection with a program for European recovery. In addition, the Economic Commission for Europe, although it is not now in a position to undertake the overall coordinating job, may play an important part in enabling Europe to take full advantage of the aid to be extended by the U.S. Especially in the case of coal and inland transport, this Commission will have very important duties as the successor to the European Coal Organization and the European Central Inland Transport Organization.

Questions as to when and in what manner UN organs and related agencies should be employed must be considered jointly by the United States and the European nations participating in the program, although the initiative in the early phases rests with the European nations themselves. The United States should be prepared, of course, to join with the European nations at any time in making maximum use of UN machinery wherever circumstances may permit.

As has already been recognized in the Paris meetings, UN agencies should be kept fully informed of all developments.

This Government should also continue to press for the speedy building up of the appropriate UN bodies in order that they may take over their full share of the burden as rapidly as possible.
C. United States Foreign Policy in General.

Further U.S. aid to Europe would not in itself constitute any basic change in U.S. foreign policy. The international environment in which our foreign policy must operate has always been, and must always be, a changing one. By the same token, our policy can never be static. There must be an unceasing process of adaptation to new conditions. The considerations set forth in this report refer merely to an attempt at such adjustment in one specific instance. There are, and will continue to be, areas outside of Europe which will have need of U.S. cooperation in their development. These needs will have to be faced, like those of Europe, on their merits. But Europe's needs are, in their aggregate, clear in outline, readily susceptible of short-term solution, and of urgent importance to the interests of this country and of world recovery in general. And for that reason, they lend themselves to immediate and special treatment.

There is no reason to believe that the approaches here applied to European problems will find any wide application elsewhere. With one or two exceptions, notably Korea and Japan, where specific U.S. obligations may call for further assistance along patterns similar to those outlined here with respect to Europe, the needs of peoples of other areas differ, for the most part, in certain fundamental respects from those of peoples in Europe.

The problem in Europe is basically one of releasing the capacity for self-help already present in
certain highly advanced countries. This is a short-
term problem.

In the case of many non-European areas, what is
needed is not the release of existing energies but the
creation of new ones. This is a long-term problem and
one which calls for much more in the way of assistance
directly from the American people, in the form of tech-
nical and managerial guidance and private investment,
then of financial assistance by our Government. It is
here that there will be particular need of new organi-
zational machinery, such as that mentioned in Section VIII
through which the technical skills of the people of this
country can be channelled.

It may be argued that a program for Europe might
prejudice the availability of supplies for distribution
elsewhere, in excess of existing programs. This is a
valid point; and the amounts which this country can
safely make available to Europe should be carefully re-
lated to what is known of demands existing or those
which may be raised elsewhere over the same period and
which might seem to be of equal urgency and importance.
But there is no likelihood that demands of this particu-
lar nature will be large.

In general, the extent of the calls on this country
is so great in relation to our resources that we could
not contemplate assistance to others on any universal
basis, even if this were desirable. A beginning would
have to be made somewhere, and the best place for a be-
ingning is obviously in Europe.
By the same token, a program of U.S. aid to Europe should not be viewed as an attempt at a total solution of the world dollar problem. It is not that. Even if Europe be effectively aided, a problem would still remain in the need of other countries for products and services from this country beyond what they are able to give to us and what we are willing to take from them in return. The so-called dollar problem is a reflection of a profound temporary disparity in productive capacity between this country and the world around it. That disparity cannot be removed by anything this country alone can do. But if Europe's exchange situation could be substantially relieved by the combined effort of the Europeans and ourselves, this would have a cumulative effect, and the rest of the world would benefit indirectly from this improvement and its problems would be reduced to dimensions which would make it much easier for everyone to deal with.

The undertaking of a program of aid for Europe would not mean termination or suspension of efforts to find ways of relieving the problem of the dollar exchange shortage elsewhere. It would merely mean that this government had agreed to join others in tackling the core of this problem in an organized and intensive manner.

If the considerations outlined in this report have implications for U.S. policy in areas other than Europe, these implications do not lie, for the most part, in parallels between action in Europe and action elsewhere, but rather in the importance of Europe
itself to the regeneration of confidence everywhere
in the possibility of progress and peaceful development
in international life. The older cultural centers of
Europe are the meteorological centers in which much
of the climate of international life is produced and
from which it proceeds. Until hope has been restored
in Europe, there can be no real revival of confidence
and security in the affairs of the world at large.
7. CONCLUSION.

As was stated in the note at the beginning of this report, the considerations set forth herein are put forward tentatively. They constitute an attempt to work out an integrated pattern of concepts to an approach of a single problem. They are advanced in the hope that they will prove useful as guidance to those in this Government who may later be called upon to deal with the problem at issue. The European governments with which the question of United States aid will eventually be discussed will have valuable thoughts and suggestions to which this Government should give most careful attention.

In general, there is much that cannot be foreseen from the present perspective and much that is debatable in detail. But it is none too soon to begin the charting of a course of U.S. policy with relation to European recovery which would do justice both to the immediate national interests of this country and to the abiding concern which the people of the United States feel for the continued vitality and prosperity of the European community.

If this paper has accomplished this task, it will have served its purpose.