Committee of EUROPEAN ECONOMIC CO-OPERATION

☆

VOLUME I

GENERAL REPORT

THE DEPARTMENT OF STATE

BEST AVAILABLE COPY

Committee of EUROPEAN ECONOMIC CO-OPERATION

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VOLUME I

GENERAL REPORT

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Letters of Transmittal

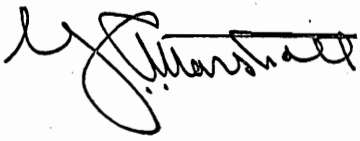
The Secretary of State to the President

DEAR MR. PRESIDENT:

I have the honor to transmit to you herewith the initial report of the Committee of European Economic Co-operation which I have today received from the Chairman of the Committee, Mr. Ernest Bevin, Foreign Minister of the United Kingdom. The report was signed on September 22, 1947, by representatives of Austria, Belgium, Denmark, Eire, France, Greece, Iceland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom, who have been engaged in the preparation of the report in Paris since July 12, 1947.

The report is divided into two volumes. The first of these consists of a general statement of the problems of European economic recovery, the plans of the European countries concerned to meet these problems and the assistance which these countries believe to be necessary from the United States and other non European countries and agencies to restore their economic position. It also contains summary statements of the position and prospects of the participating countries and western Germany in food and agriculture, energy sources, iron and steel, transport, timber, and manpower as well as in their balances of international payments and their internal financial situation. These summary statements are drawn from the reports of Technical Subcommittees of the Conference, which are published in full in volume two.

Faithfully yours,



THE PRESIDENT
THE WHITE HOUSE
September 24, 1947

Chairman of the Committee to the Secretary of State

UNITED KINGDOM DELEGATION,

Paris.

22nd September, 1947.

DEAR MR. MARSHALL

As Chairman of the Committee of European Economic Co-operation, which held its Final Plenary Session today, I am sending you herewith a document signed by all the Delegates of the Conference transmitting our Report, compiled in response to your speech at Harvard on the 5th June.

I also enclose a translation of a letter[1] which I have received, as Chairman, from the Greek Delegate reserving his position on one point in the Report.

Yours sincerely,

ERNEST BEVIN

MR. GEORGE C. MARSHALL

[1] [EDITOR'S NOTE: Not Printed.]

The Committee to the Secretary of State

COMMITTEE OF EUROPEAN ECONOMIC CO-OPERATION

PARIS, *22nd September, 1947.*

MY DEAR MR. SECRETARY,

In your speech at Harvard University on the 5th June you stated that, before the United States could proceed much further in its efforts to help start the European world on its way to recovery, there must be some agreement among the countries concerned as to the requirements of the situation and the part these countries themselves could play in order to give proper effect to whatever action might be undertaken by the Government of the United States. You suggested that the initiative in the drafting of a European programme must come from Europe, and that the programme should be a joint one agreed to by a number, if not all, of the European nations. You stated that an essential part of any successful action by the United States was an understanding by the people of America of the character of the problem and the remedies to be applied.

The programme which you suggested should be prepared has now been drawn up in the form of the attached initial Report by the 16 countries which accepted the invitation of the British and French Governments to attend a Conference in Paris opening on 12th July. This programme, which covers the 16 participating countries concerned and Western Germany, contains statements of production, requirements and future plans on which the governments of each of the participating countries have agreed.

The Report has been drawn up in close and friendly co-operation on the part of the countries concerned, and we hope that it will help to solve the economic problems which today face a large part of the European continent.

Yours very truly,

ERNEST BEVIN, Chairman.

[*Signatures*] UNITED KINGDOM, AUSTRIA, BELGIUM, DENMARK, FRANCE, GREECE, ICELAND, IRELAND, ITALY, LUXEMBOURG, NETHERLANDS, NORWAY, PORTUGAL, SWEDEN, SWITZERLAND, TURKEY.

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Committee of European Economic Co-operation

General Report

PREAMBLE

(i) In response to Mr. Marshall's speech of 5th June the sixteen participating countries have met in Paris for the purpose of developing an economic recovery programme and of determining the manner and extent to which these countries can, by their individual and collective efforts, bring about the achievement of that programme.

(ii) In the report which follows, the participating countries have defined the economic and financial problems facing them and have reviewed 1) the production targets which they have set for themselves; 2) the steps which are being taken and will be taken to bring about internal stabilisation; 3) the measures which the participating nations will take through combined or co-ordinated action to solve production problems, provide for the free and efficient flow of goods and labour, and ensure the full use of their resources; and 4) the problem presented by the participating countries' and Western Germany's balance of payments deficit with the American continent.

(iii) The circumstances in which the report has been drawn up give it the character of an initial report. It was impossible in a few weeks to give a completely detailed and exact account of the economic situation of sixteen European countries, of the serious difficulties confronting them, of the action which they have decided, both individually and collectively, to take, or of the import requirements necessary for the execution of such a programme. So far as possible however the replies to the questionnaires, which were sent to each of the participating governments, have been subjected by the Committee to a critical examination.

(iv) To deal with any amendments which appear desirable, it may be necessary to publish supplementary reports which will in particular take account of the development of the international economic situation.

(v) The Committee however thought it necessary not to delay in publishing the results of the work performed to date. The critical situation in Europe, aggravated by the bad harvests, compels it to adopt this course.

(vi) The participating countries recognise that their economic systems are interrelated and that the prosperity of each of them depends upon the restoration of the prosperity of all. They further recognise that the objective of a sound and healthy economy for their countries can best be achieved by sustained common efforts directed specifically towards the production of scarce commodities, the full use of available resources and the achievement of internal financial and economic stability.

(vii) To this end, the participating countries have undertaken to use all their efforts to develop their national production in order to achieve the production targets set out in this report. Each is also determined to carry out vigorously the internal measures which are necessary to create or maintain its own internal financial stability and confidence in its currency and credit.

(viii) The participating countries have further stated their belief that the establishment of a joint organisation to review the progress made in carrying out the recovery programme will be necessary.

(ix) The participating countries fully recognise that the present progress towards European recovery could not have been achieved without the generous and substantial aid furnished to certain of the European countries by the United States. As events have turned out, that aid has not proved sufficient to enable the European nations to re-establish their production and trade on a sound and healthy basis. It should therefore, be understood that the commitments here undertaken cannot be fully met nor can European recovery be finally and permanently effected without additional external assistance.

(x) This Report is in no sense a "shopping-list" of the goods which the participating countries and Western Germany need from the United States. It is designed primarily as a close and careful analysis of the maladjustment, which has resulted from the war, and an examination of what the participating countries can do for themselves and for each other to work towards a lasting solution.

(xi) The Report shows the expected deficit of the participating countries and Western Germany in their trading relations with the American continent and the non-participating countries. This illustrates the size of the problem, but it must be understood that the participating countries neither ask nor expect special aid from the United States to the full amount of that deficit. Some of the deficit can be

filled through private financing and investment or the use of any suitable assets still available to the participating countries, and some through the International Bank for Reconstruction and Development. The amount of aid which each country needs in order to make its full contribution to the European recovery programme is not specified in this report.

(xii) In presenting this report in response to Mr. Marshall's suggestion, the participating countries believe that the programme of concerted action, which it set forth, marks the advent of a new stage of European economic co-operation. Through the achievement of this programme, by their own efforts and with such support as the United States may feel it proper to supply, the participating countries can march forward towards the attainment of that essential economic well-being which is the best assurance of peace and happiness.

CHAPTER I

HISTORICAL INTRODUCTION

1. The 16 participating countries with Western Germany have a total population of 270 millions. Most of them in normal times enjoyed a standard of living somewhat inferior to that of the United States and Canada, but higher than that of any other large aggregate of population in the world. They were able to do this firstly because they had brought their industry and agriculture to a high standard of efficiency and secondly, because they derived a large income from international trade and commerce as well as invisible exports such as tourism, shipping, banking and insurance services and the foreign investments which they had gradually built up over centuries.

2. As trading nations these countries were predominant. They had nearly one-half of the world's international trade;[1] they owned nearly two-thirds of the world's shipping tonnage; and their income from foreign investments and other invisible exports was sufficient to purchase nearly one-quarter of their imports from the

[1] The following table shows the comparison with the United States:—

	Pre-war Population (millions)	Percentage of World (1938)		
		Imports	Exports	Shipping Tonnage
U. S. A.	131. 7	8. 1	13. 2	14. 2
Participating Countries	205. 9	40. 8	30. 4	58. 6
Western Germany	40. 1	*9. 1	*9. 0	*6. 8

*Whole of Germany.

The figure for the participating countries includes trade between them. If only the trade of the 16 countries as a whole with the outside world is taken, their imports were over three times those of the United States, their exports some 30% higher than the exports of the United States.

rest of the world. This income from trade enabled them to buy the raw materials needed by their industrial plants and the food and feeding stuffs required to sustain their population and agriculture.

3. The industrial structure of Western Europe was based upon coal, steel and chemicals, and its output of these products in the period just before the war was slightly greater than that of the United States. Every part of this machine depended upon the efficient working of the other parts and none of the Western European countries was in a position to organise its industry effectively without the support of the others.

4. A high level of agricultural production was attained based in some cases on the specialised cultivation of high quality products and in other cases on intensive farming techniques depending on the use of fertilisers and imports of feeding stuffs. The density of agricultural population was many times greater than that of North America, and among the countries with the most efficient agriculture were those which made most use of imported supplies.

5. The exceptional degree of specialisation in the industry and agriculture of the participating countries and Western Germany was responsible for their high standard of living, but it contained certain elements of weakness. The machine was highly developed and delicate. It depended for its efficient working upon the smooth working of international trade and the uninterrupted flow of goods and services. The war of 1939–1945 destroyed this process, and a breakdown occurred which altered the whole basis of the economy of Europe. As time passed, it also became apparent that, even when the war had come to an end, the vital flow could not immediately be resumed. Allied victory had been obtained only at the price of the temporary destruction of some of the centres of production and the dislocation of the transport system, and by the sacrifice of shipping and foreign investments, upon which the essential imports had so heavily depended.

6. These losses and sacrifices had weakened the economic structure of the sixteen countries and their effect was aggravated by many other factors. The agriculture, trade and industry of European countries had been twisted out of shape by their own war effort or by policies imposed by armies of occupation. Great numbers of workers were displaced or deported. Oversea importers, deprived of the normal flow of supplies from Europe, transferred an increased part of their trade to the United States. Many of the main sources of supply of these sixteen countries were laid waste; the devastation in Eastern Europe and the Soviet Union cut off a major source of food and timber; the extension of the war into South East Asia upset Europe's trade

balance with the United States which was partly financed by exports from South East Asia, and in addition led to a double loss to the European food supply; for the countries of South East Asia not only became incapable of sending their normal share of food exports to Europe but required and obtained food which would normally have come to Europe.

7. In 1945 Europe was perhaps more denuded of resources than at any time in modern history. There was a shortage of all basic materials: of fertilisers to renovate the soil, of raw materials and equipment to quicken production and in most countries of available labour. Some industries began to run down for lack of facilities for all but temporary repair.

8. After the shortage of food, the decline in the production of coal and steel was perhaps the hardest blow to the economy of Europe. Immediate rehabilitation was made difficult; urgent domestic needs pushed aside the claims of the export trade thereby further reducing capacity to buy vital industrial equipment abroad. Except in Germany, European forests were generally overcut—particularly in the occupied countries and the United Kingdom. Timber exports from North Eastern Europe fell off sharply, with serious consequences for the basic industries of Western Europe.

9. Meanwhile prices had risen and, although no inflation comparable to that of 1914–1918 had occurred, the problem of unbalanced budgets and rising prices was serious in many countries; in some it was catastrophic. The shortage of gold and dollars in a large number of European countries brought about the development of bilateral agreements, which promoted a limited revival of trade, but could not provide the steady and universal growth which would have taken place if conditions had allowed a return to the normal multilateral system.

10. To sum up, the difficulties of the participating countries at the end of a war fought over three continents were due to the following main causes:—

(i) Physical devastation and disruption in Western Europe and in the principal food and timber-producing zones of Eastern Europe which, together with the dislocation of the European transport system, caused a temporary paralysis of production in Western Europe, including Germany;

(ii) prolonged interruption of international trade, which occurred simultaneously with the loss of income from merchant fleets and foreign investments, and led to the exhaustion or diminution of dollar funds in the sixteen countries at a moment when many vital needs could be met only from dollar sources;

(iii) human strain and exhaustion resulting from six years of war or enemy occupation;

(iv) internal financial disequilibrium which is the inevitable result of a long war;

(v) in South East Asia, the shortage of supply of food and raw materials which were vital to the European economy, both for direct consumption and as earners of dollars;

(vi) the abnormal increase of population in certain areas resulting from the war-time movement of peoples.

11. The scale of destruction and disruption of European economic life was far greater than that which Europe had experienced in the first World War. Industrial production in Belgium, France and the Netherlands was reduced to 30–40 per cent of pre-war, and in Italy to only 20 per cent; production of bread grains fell to only two-thirds of pre-war; 300,000 freight cars had been destroyed out of a total of 2,000,000 and 800,000 freight cars were damaged. The devastated countries had to start again almost from the beginning.

12. Nevertheless recovery proceeded well—indeed, much faster than after the end of the first World War. Eighteen months after the end of fighting in Europe, industry and transport were moving again vigorously and the work of reconstruction was getting under way. This was made possible by the efforts of the European countries themselves, with generous assistance from the United States and other countries and from U. N. R. R. A. So successful were these efforts that by the end of 1946 industrial production in Belgium, France and the Netherlands had recovered to 85–95 per cent of the pre-war level, whilst Italian industrial production was back to 60 per cent of pre-war level. In the United Kingdom the process of demobilisation of the war economy had been accomplished smoothly and the pre-war level of national output had been fully restored. In the Scandinavian countries production was steadily rising. In the case of agricultural production, which though hard hit by the war, had not declined to the same extent as industrial production, the beginning of recovery was evident in all countries in 1946. Indeed, the participating countries as a whole had made a good and resolute start on their task.

13. This improvement was not maintained in the winter of 1946–7. The European economy, still at the convalescent stage, suffered a most serious setback as a result of the continued shortage of coal, the increased cost of primary products and the prolonged world shortage of food and other essential commodities. This crisis was intensified by the exceptionally severe winter and the drought which followed. Further advance from the levels of autumn 1946 would, in any case, have been difficult in view of the continued inability of

the German economy to supply the coal and other products upon which so much of Europe's economic life depends. But the failure of production to recover in other devastated parts of the world and the consequent development of further shortages, and further price increases created additional problems for Europe which threatened the whole basis of the recovery which had been made so far. The credits which many countries had obtained in the early post-war period, were becoming exhausted, and the upsurge of recovery had used up the stocks which countries had managed to retain or acquire after the liberation.

14. Early in 1947, indeed, it became clear that the effect of the war had been to upset the balance between the productive power and resources of the Western Hemisphere and those of the rest of the world. The effect of this disequilibrium was shown most clearly in the surplus in the United States balance of payments which was then running at the rate of $10,000 million a year. In order to maintain the progress which had so far been achieved, the European countries were bound to maintain the volume of their imports from the American Continent at increasing cost. This process inevitably led to a rapid depletion of gold and dollar reserves. The effects of this process reach far beyond Europe and threaten the foundations of the world economy. But Europe was affected most acutely and urgently because of the dissipation of her financial and physical resources during the war.

15. By the early summer of 1947, the earlier hopes of a rapid and sustained recovery from the effects of the war had receded. Agricultural recovery was halted by frost damage. It became apparent in May that the prolonged winter and the spring drought would lead to poor harvests. The later droughts have caused a further deterioration in crop prospects. Industry in most European countries in fact recovered well from the winter crisis, and the levels of the previous autumn had been generally restored by the middle of the year. But this improvement was being maintained only at the cost of depletion of financial reserves. When these were exhausted, the peoples of Europe would be threatened with an indefinite prolongation of insecurity and lower standards of living; unless drastic steps were taken to arrest the process, European production could never play its proper part in redressing the growing unbalance of the world economy.

16. On 5th June, 1947, Mr. Marshall, the United States Secretary of State, delivered a speech at Harvard University. He said:

> ". . . Europe's requirements for the next three or four years of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that

she must have substantial additional help or face economic, social, and political deterioration of a very grave character. . . . Before [, however,] the United States [Government] can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a programme designed to place Europe on its feet economically. . . . The initiative . . . must come from Europe. The role of this country should consist of friendly aid in the drafting of a European programme and of later support of such a programme so far as it may be practical for us to do so. The programme should be a joint one agreed to by a number, if not all, European Nations".

On 12th June, Mr. Marshall explained that he had in mind the entire continent West of Asia—and including both the United Kingdom and the Soviet Union.

17. On 16th June, Mr. Bevin, the British Foreign Secretary, visited Mr. Bidault, the French Foreign Minister, in Paris. They agreed to seek to associate the Soviet Government with their initiative in framing a reply to Mr. Marshall, and discussion between Mr. Bevin, Mr. Bidault and Mr. Molotov started in Paris on 27th June. Much to the regret of the Governments of France and the United Kingdom, agreement could not be reached.[2]

18. On 3rd July Mr. Bevin and Mr. Bidault decided themselves to issue invitations to all other European countries (except Spain) to attend a conference in Paris in order to prepare a report for presentation to Mr. Marshall in response to his Harvard Speech. In addition to the United Kingdom and France, fourteen countries, Austria, Belgium, Denmark, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey, accepted the invitation and sent delegates to the Conference. The remaining European countries decided not to take part, and the Conference was therefore unable to deal with the European problem as a whole. It was hoped, however that the non-participating countries would be able to associate themselves with the work of the Conference at a later stage, and this remains the hope.

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[2] See Appendix A. The proceedings of the Conference and the speeches made are reduced in the *Livre Jaune français sur la "Conférence des Ministres des Affaires Etrangères de la France, du Royaume Uni, de l'URSS, du 27 juin au 3 juillet 1947"* (Paris, Imprimerie Nationale, 1947).

19. The Conference opened in Paris on 12th July under the chairmanship of Mr. Bevin. Within four days the Conference adjourned, having set up a Committee of Economic Co-operation and Technical Committees covering food and agriculture, fuel and power, iron and steel and transport to prepare a Report. Later, committees were formed to deal with timber and manpower, together with a Balance of Payments Committee and a Committee of Financial Experts to examine means of removing financial obstacles to intra-European trade. It was decided to prepare a report for the four years 1948–51, and exhaustive information in the fields covered by the Committees was collected from the sixteen participating countries. Most of this information had been collected by the end of the first week in August.[2]

20. At the outset the Committee of Co-operation decided to request the Commanders-in-Chief of the occupied zones of Germany to give similar information about their zones as was being requested from the participating countries. At a later stage a statement [3] was prepared as a guide to the Technical Committees in the treatment of the information submitted.

21. As the work of the Committee of Co-operation was proceeding the foreign exchange crisis continued to gather momentum. There was a rapid increase in the rate of exhaustion of Europe's financial reserves. On the 20th August, the United Kingdom was forced temporarily to suspend the convertibility of sterling into United States dollars; on the 28th August the Government of France announced the suspension of all dollar imports except cereals, coal and certain other supplies of similar essentiality; at the beginning of September, the Italian Government was obliged to suspend purchases of coal, oil and other basic supplies. Action on similar lines has been taken or is likely to become necessary in the near future in most of the participating countries.

22. At the moment at which this Report is published many of the participating countries have already reached the point at which they are forced by lack of foreign exchange to restrict their imports of the fuel and raw materials which are indispensable for their industrial and agricultural production and to cut their imports of food to a point at which industrial efforts can no longer be sustained at the level required to enable recovery to take place. From the devastation of war Europe recovered well. But that recovery is now halted and the crisis is deepening, and its repercussions are spreading to every corner of the world economy.

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[2] See footnote on p. 9.
[3] Reproduced in Appendix B.

CHAPTER II

THE EUROPEAN RECOVERY PROGRAMME

23. In this critical situation, the participating countries and Western Germany have examined their prospective requirements and resources over the next four years and have in common formulated a recovery programme. The various countries handle their economic affairs by diverse means; some work to a long-term plan, and others follow relatively unrestricted private enterprise. The means of carrying out this programme will therefore vary from country to country, but each will be able fully to play its part in the programme, and all are determined to do so.

24. The recovery programme is based upon four points:—

(i) A strong production effort by each of the participating countries, especially in agriculture, fuel and power, transport, and the modernisation of equipment.

(ii) The creation and maintenance of *internal financial stability* as an essential condition for securing the full use of Europe's productive and financial resources.

(iii) The development of economic *co-operation* between the participating countries.

(iv) A solution of the problem of the participating countries *deficit with the American Continent* particularly by exports.

25. The production expansion which is envisaged by 1951 is similar in general scale to that achieved by the United States in the mobilisation years 1940 to 1944.[1] It calls for an unprecedented peace-time effort of work by the whole population of all the participating countries. It is the maximum self-help which each country can accomplish; it will restore agricultural production to the pre-war level, and it will carry with it a significant expansion of mining and manufacturing production beyond the levels which were ruling in 1938.

[1] In U.S.A., from 1940 to 1944, coal output increased by 34%, steel output by 31%, electric power output by 61%. The European coal output is planned to increase by 33% from 1947 to 1951, steel output (excluding Germany) by 60% and power output by 39%.

26. The production programme provides for mutual help between the participating countries over a wide field, and for a number of practical steps for specific action, such as the International Power Project. In addition broader proposals are made for the reduction of trade barriers and the removal of financial obstacles to intra-European trade.

27. The creation of internal financial stability in certain countries is necessary in order to get their entire productive and distributive systems into effective operation, and in order to secure the full use of internal and external financial resources. While the necessary economic and financial reforms can be initiated without external assistance, such assistance will be required to make them fully effective.

28. In order to carry out their production effort, and after making full allowance for the supplies which they can obtain from each other, the participating countries need food, raw materials, fuel and capital equipment from overseas. There are two difficulties to be overcome: the inadequate supplies of certain key commodities available in the world, and the lack of means of paying for them. In this report, it is estimated that available supplies to the participating countries, assuming complete achievement of their agricultural programmes, will be insufficient to permit even the restoration of the pre-war standard of food consumption by the end of 1951. Moreover, in the immediate future, the lack of supplies from normal sources in Eastern Europe and South-East Asia increases the urgency of the need for supplies from the American Continent. The financial counterpart of the unbalanced flow of goods and services from the American Continent is the dollar deficit of the participating countries.

29. The European recovery programme cannot get fully under way until the immediate dollar problem is solved. Failure to solve it would destroy the basis of production and internal confidence in Europe; a descending spiral of production and consumption would become inevitable. Immediate and fully adequate aid in 1948 is therefore necessary as a first step for the fulfilment of the programme of production, stabilization and co-operation. If the initial stages of the programme can be successfully accomplished, a momentum will be created that will ease the task in the following years.

30. The productive effort which is generated in 1948 can be sustained and developed further only if the participating countries can obtain and pay for the necessary supplies from overseas. There will still be a large deficit in the following years. The purpose of the European recovery programme is to reduce this deficit as fast as possible. There will be some deficit in 1951; the participating countries have always depended on dollar earnings from the rest of the world to meet their deficit with the American Continent, and will

do so in the future. By the end of 1951, given reasonably favourable external conditions, the deficit should be of dimensions which will be manageable through normal means without special aid.

31. This is a fundamental problem which cannot be solved quickly. The effects of the war, which are so clearly illustrated by the lack of balance in the world's trading pattern, cannot be cured in a few months. But the participating countries are confident that in four years considerable and decisive progress can be made to overcome them. This recovery programme can break the back of the problem. But continuing constructive action by the European countries and by the rest of the world will be needed in order to keep the trading position balanced and to prevent the re-appearance of the international maladjustment which is the root of Europe's present difficulties.

32. In order to ensure that the recovery programme is carried out, the sixteen participating countries pledge themselves to join together, and invite other European countries to join with them, in working to this end. This pledge is undertaken by each country with respect to its own national programme, but it also takes into account similar pledges made by the other participating countries. In particular, each country undertakes to use all its efforts:—

(i) to develop its production to reach the targets, especially for food and coal;

(ii) to make the fullest and most effective use of its existing productive capacity and all available manpower;

(iii) to modernise its equipment and transport, so that labour becomes more productive, conditions of work are improved, and standards of living of all peoples of Europe are raised;

(iv) to apply all necessary measures leading to the rapid achievement of internal financial monetary and economic stability while maintaining in each country a high level of employment;

(v) to co-operate with one another and with like-minded countries in all possible steps to reduce the tariffs and other barriers to the expansion of trade both between themselves and with the rest of the world, in accordance with the principles of the draft Charter for an International Trade Organisation:

(vi) to remove progressively the obstacles to the free movement of persons within Europe;

(vii) to organise together the means by which common resources can be developed in partnership.

By these means and provided the necessary supplies can be obtained from overseas, European recovery can be achieved.

CHAPTER III

THE PRODUCTION EFFORT

33. The Committee of Co-operation concentrated its examination upon food and agriculture, fuel and power, steel, timber and transport, together with related industries such as agricultural and mining machinery, as well as the general problem of labour. These are the basis of economic life and if there is not enough of any of them the entire economy suffers. The first task is to put these foundations right. Success in this is the first and essential condition for the growth of the varied flow of finished products of all kinds which Europe needs for its own people and for export.

34. These key commodities and services are all inter-dependent. More food for miners means more coal; more coal means more steel; this in turn makes it possible to produce more mining machinery and more agricultural machinery to produce more coal and more food, and more transport equipment to enable the increased supplies of coal to flow smoothly from the pits. If timber is lacking, coal production is hampered and movements by rail are slowed down if there are not enough timber ties to maintain the track. Europe's experience shows how these shortages interact upon one another and ultimately lead to industrial stagnation. An expansion of each can likewise have a cumulative stimulating effort upon the whole structure.

35. The production effort of the participating countries and Western Germany will therefore be concentrated on these things. These goods and services must be provided for a population which in 1951 will exceed pre-war by 11 per cent. The national programmes and measures for mutual assistance are designed to achieve the following results by 1951:—

(i) Restoration of pre-war bread grain and other cereal production, with large increases above pre-war in sugar and potatoes, some increases in oils and fats, and as fast an expansion in livestock products as supplies of feeding stuffs will allow.

(ii) Increase of coal output to 584 million tons i. e. 145 million tons above the 1947 level (an increase of one-third), and 30 million tons above the 1938 level.

(iii) Expansion of electricity output by nearly 70,000 million Kwh or 40 per cent above 1947 and a growth of generating capacity by over 25 million Kw or two-thirds above pre-war.

(iv) Development of oil refining capacity in terms of crude oil throughout by 17 million tons to two and a half times the pre-war level.

(v) Increase of crude steel production by 80 per cent above 1947 to a level of 55 million tons or 10 million tons (20 per cent) above 1938.

(vi) Expansion of inland transport facilities to carry a 25 per cent greater load in 1951 than in 1938.

(vii) Restoration of pre-war merchant fleets of the participating countries by 1951.

(viii) Supply from European production of most of the capital equipment needed for these expansions.

36. The governments of the sixteen participating countries have undertaken to use all their efforts to develop their national production in order to achieve the objectives specified above. Each of these Governments in assuming this undertaking has taken into account the similar undertakings given by the other participating countries. The sixteen participating countries consider that the linking together of their production efforts in this way should be an important contribution to the achievement of the programmes which they have set themselves.

37. This programme is not, of course, possible by the efforts of the participating countries alone; it must be sustained by a flow of goods and services from the rest of the world. But this is the scale of the agricultural and industrial effort which the participating countries have decided to make and which must be achieved in order to lift the level of European production to what is required to supply the European peoples' needs and to produce the exports which will pay for the necessary imports.

38. Food is the first essential, and agriculture is the most important single form of economic activity in the participating countries and in Western Germany. In terms of total human effort, more must be accomplished in this field than in any other. The population in this area in 1951 will be about 11 per cent above pre-war and the restoration of pre-war agricultural output can therefore be no more than the first stage in a longer-term programme. Pre-war output of cereals and other crops can be restored and in some cases exceeded by 1951, but the rebuilding of livestock herds will be a slower process, which is dependent upon the supply of imported feeding stuffs, and even if full

requirements are met, meat production will still be only 90 per cent of pre-war. The supply of fish has already recovered to the pre-war level and could, if market conditions allowed, be substantially raised with present equipment. The following table summarises the production programme:—

Table 1—Production of Basic Foods

(Million metric tons)

Year*	1934–8	1946–7	1947–8	1950–1
All Cereals	64. 5	55. 6	48. 9	65. 8
Bread grains	34. 0	28. 3	21. 4	34. 0
Potatoes	57. 7	50. 7	61. 6	68. 2
Sugar	3. 4	3. 3	3. 4	3. 9
Meat	9. 0	5. 9	6. 0	8. 1
Milk	72. 5	55. 7	57. 0	73. 4
Oil and Fats (including butter)	2. 8	2. 0	2. 2	2. 9

*Years from 1st July to 30th June.

[EDITOR'S NOTE. Tables for converting metric to avoirdupois weight and for other similar measurements can be found at the end of this volume.]

39. Outstanding examples are the cereals production programmes of France and Italy. These two countries are the largest producers of bread grains among the participating countries; and the former was before the war normally self-sufficient. In France bread grains production which before the war was 8.9 million tons had fallen to an estimated 3.8 million tons in 1947–48. By 1950–51 it is estimated again to reach 8.8 million tons. The corresponding figures for Italy are, pre-war 7.4 million tons; 1947–48, 4.7 million tons; and 1950–51, 7.1 million tons. The production of livestock products among all the participating countries shows an even greater decline than that of crops; the production of meat is only two-thirds of pre-war; the rate at which it will increase will depend entirely upon the availability of imported feeding stuffs.

40. As their programmes develop, some countries' exportable surpluses will increase rapidly, and this will allow other participating countries either to increase their consumption or to reduce their imports from elsewhere. The exportable surplus of butter from certain participating countries will increase from 87,000 tons in 1946–47 to 154,000 tons in 1950–51; that of eggs from 52,000 tons to 223,000 tons; that of meat from 398,000 tons to 630,000 tons, and that of fruit from 550,000 tons to 1,911,000 tons. In the same way exportable surpluses

of certain special products which now find difficulty in entering their pre-war markets will begin to move more freely. This is a natural form of mutual help which will grow automatically as the production programmes proceed.

41. The programme requires first of all the restoration of soil fertility. The participating countries are developing their production of fertilisers with special emphasis upon nitrogen as providing the most effective aid to quick crop production. This need for nitrogen fertiliser is much greater than pre-war, because stable manure has been less rich in plant nutrient for lack of imported feeding stuffs. Production of fertilisers is already well above pre-war and the present level will be doubled by 1950–51. With adequate supplies of phosphates and potash, this production of nitrogen fertiliser will be enough to cover requirements at the end of the period, but even if sufficient coal is available abnormal imports of nitrogen from the American Continent will be needed on a diminishing scale in the earlier years.

42. The second requirement is that the mechanical means of working the soil and handling the crops should be improved by the increased use of tractors and machinery, and thus a higher production per working unit reached. The production of agricultural machinery—and especially tractors is being actively expanded in the participating countries, and this will meet a steadily increasing part of the demands except for special types of equipment. The third requirement is sufficient imported feeding stuffs. The density of population in the participating countries and Western Germany is too great to permit simultaneous production both of enough crops for direct consumption and of enough feeding stuffs to produce enough protective livestock products. Large quantities of protein feeding stuffs, such as oilcake, are needed to supplement home-grown winter fodder for dairy cattle, as well as feeding grain mainly for pigs and poultry.

43. Special long-term programmes for the mechanical production of ground nuts are being undertaken by the British and French Governments in Africa. This will eventually add significantly to the world supplies of oils and fats.

44. Fuel and power are likewise crucial. At the present time the United States is consuming four times as much fuel and power per head of its population as the participating countries and Western Germany, and even before the war the ratio was 2½ : 1. This affords a rough measure of the difference between the technical levels of the United States and the European economies and underlines Europe's main need, not only to recover its pre-war supplies of energy but also to increase them progressively and thus raise the whole standard of productivity of European workers. Before the war four-fifths

of the power used in the participating countries and Western Germany was derived directly or indirectly from coal. These countries expect over the next four years a substantial increase in the use of petroleum products and the development of new hydro-electric capacity, but the basic source of power will continue to be coal.

45. Coal production is at present 20 per cent below the pre-war level, mainly because output in the Bi-Zone of Germany and in the United Kingdom has been slow to recover from the after-effects of the war. The basic difficulties in the Ruhr are lack of trained labour, coupled with acute food and housing shortages. In the United Kingdom there has been a shortage of skilled labour for underground work, as well as deficiencies in technical development (due largely to the deliberate adoption of a "quick returns" policy during the war) and in plant replacement and modernisation. These deficiencies in the United Kingdom are now to be made good. As a result of the measures now in hand, which comprise an expanded labour force, extensive capital development (including some 20 new sinkings) and the intensified use of modern mechanised methods, output in 1951 is programmed to exceed the 1947 figure by 50 million tons. The mining machinery and supplies of all kinds required for this major effort over the 4 year period will exceed $1,000 million; virtually all the items required will be produced in the United Kingdom. It is hoped to resume exports of coal to other participating countries after April, 1948, the quantity rising from 6 million tons in 1948 to 29 million tons in 1951.

46. In the Bi-Zone of Western Germany there will be an increase of 60 million tons in 1951 compared with 1947, but the extent of devastation has been so great that the 1938 output will not be regained in this period. In the Saar, production will reach the 1938 level in 1948, and will in 1951 be 20 per cent above it. In France, too, where production already is over pre-war level, a further expansion of 12 million tons or 25 per cent is planned by 1951. The net result is that for the participating countries and Western Germany as a whole production in 1951 will be 30 million tons higher than in 1938.

Table 2—Production of Coal and Lignite

(Million tons) (ton for ton)

	1938	1947	1948	1951
United Kingdom	231	199	214	249
Western Germany:				
Bi-Zone	206	133	149	193
Saar	14	10	14	17
France	48	51	51	63
Belgium	30	24	26	31
Other countries	23	22	24	31
Total	552	439	478	584

47. To carry out this programme requires more intensive exploitation of coal by modern mechanised methods, the provision of an adequate and efficient labour force, and improvement in food and housing. The European Coal Organisation is making a special examination of the best means of securing the most efficient use of such surplus capacity as may exist for manufacturing mining supplies. The Committee examined the pitprop position, particularly in order to break the vicious circle by which exports of pitprops are checked for lack of coal while coal production is checked for lack of pitprops. Plans for increasing the supplies of coal to Scandinavia have enabled the Committee to allow for more imports of pitprops from Sweden. It is expected that Sweden will be able to increase her exports of pitprops to 300,000 solid cubic metres a year, which is 50 per cent above her prewar exports, and this and other proposals should bring supply and demand into balance.

48. Consumption of electricity has increased during the war, but there has been no corresponding increase in generating capacity. A further substantial growth of consumption is expected to a level in 1951 about 80 per cent above that of 1938. In order to catch up the arrears and to provide for this further expansion, the annual rate of growth of generating capacity will have to be nearly four times the rate in 1937–38. This presents a major industrial task. In view of

the coal position, emphasis is being laid on thermal plants designed to consume low grade fuels and more particularly on hydro-electric plants. But it is certain that for many years generating capacity will not be enough to meet requirements.

49. In addition to the expansion programmes which are already under way, the Committee considered further means of exploiting hydro-electric and lignite resources, and a special working party was set up to study this problem. It examined many projects and chose a plan which comprises six hydro-electric plants in Italy, France and on the Austro-Italo-Swiss frontier together with two lignite thermal plants in Germany and one geothermal plant in Italy. These projects have been selected without regard to national frontiers and involved in some cases the co-operative development of resources cutting across frontiers.

50. A further consequence of the coal shortage is the increasing use of fuel oil, consumption of which is expected to rise from 12 million tons in 1947 to 28 million tons in 1951. This, together with the increasing demands for petroleum products resulting from the mechanisation of agriculture, the expansion of industry and the growth of road transport, presents a formidable problem to all participating countries, for this whole area has virtually no natural resources of oil. It is planned to reduce the foreign exchange burden as far as possible by the development of oil refining capacity; this will also provide raw materials for the increasingly important chemical processes dependent upon oil derivatives. This involves expanding the production of refined products by the participating countries and Western Germany by 1951 to 2½ times the pre-war level.

51. One of the most difficult problems considered by the Committee is the supply of hard coke and coking coal. For the last sixty years the iron and steel industries of Western Continental Europe have been based on the combination of Ruhr coking coal (which is eminently suitable for making hard coke essential for steel manufacture) and Lorraine iron ore. With the reduced level of coal output prevailing in the Ruhr, with its consequential effect on the level of hard coke and coking coal exports, and the fact that the United Kingdom is not yet able to resume exports of coking coal on the pre-war scale, the supplies available are not enough to meet the demands of the iron and steel industries in France, Belgium, Luxemburg and other countries.

52. The Committee has developed a plan to cover the coke deficit, which was originally estimated at 20 per cent of requirements in 1948. This would involve the diversion of coke from non-metal-

lurgical uses, coke economy by the use of richer iron ores in blast furnaces, and the import of a larger proportion of coking coal in place of other coal from the United States and Poland. In addition, in the Bi-Zone of Germany, an increased rate of carbonisation would be called for and a higher proportion of hard coke in Western German solid fuel exports. These measures will demand a high degree of co-operation and effort, particularly in the Bi-Zone of Germany, and will have to be continued in order to ensure that the supplies of coke vital to European steel production are available in sufficient quantities.

53. If the coke plan is successful, the main obstacle to the achievement of the full programme for iron and steel production will have been removed but there will be continuing difficulty in the provision of scrap and possibly some shortage of rich iron ore in the later years of the period. Supplies of manganese ore may also be scarce. A slight shortfall in the programme would not affect the basic engineering industries mentioned in this chapter but it would probably affect the rate at which the construction industries could cope with the physical reconstruction of the war-torn areas.

54. The full steel programmes for the participating countries, together with target figures for Western Germany, are shown in the following table:—

Table 3—Production of Crude Steel

(Million tons)

	1938	Best year (a)	1947	1948	1951
United Kingdom	10. 6	13. 2	12. 7	14. 0	15. 0
France	6. 2	9. 7	5. 8	10. 4	12. 7
Belgium and Luxemburg	3. 8	7. 0	4. 6	7. 3	7. 9
Italy	2. 3	2. 3	1. 6	2. 5	3. 0
Other participating countries	1. 8	1. 8	2. 0	2. 3	4. 1
Bi-Zone of Germany	17. 8	17. 8	2. 8	4. 1	10. 0(b)
Saar and French Zone	3. 0	3. 0	0. 8	1. 7	2. 7
Total	45. 5	54. 7	30. 3	42. 3	55. 4
of which					
Participating Countries	24. 7	33. 9	26. 7	36. 5	42. 7
Western Germany	20. 8	20. 8	3. 6	5. 8	12. 7

(a) A selected pre-war year of greatest activity has been taken for each country. The total of those figures gives a measure of the output of which the plant of the countries taken together was capable.

(b) The figures for the Bi-Zone of Western Germany are put forward by the Control Authorities as targets which could be achieved provided that certain assumptions are fulfilled. Under the March 1946 Level of Industry Plan steel production would be limited to 4.7 million ingot tons. Production, however, might be raised to 10 million tons in 1951, in conformity with the level permitted in the Bi-Zonal Level of Industry Plan announced by the Commanders-in-Chief on 29th August, 1947. It could certainly, with proper efforts on the part of the industry, be raised to 7 or 8 million tons by that date. Any calculations based on the 10 million ingot ton figure must take account of the statement that the measures about to be taken by the Commanders-in-Chief do not prejudge quadripartite decisions of the Council of Foreign Ministers in respect of the level of industry for Germany as a whole and such industrial limitations as may be imposed by the peace settlement.

55. In spite of the fuel shortage, the participating countries are now producing more steel than they did in 1938, although this is still less than their production in pre-war peak years when the French, Belgian and Luxemburg industries were working at nearly full capacity. The programme for crude steel in 1951 for the participating countries is 60% above 1947, and will be 25% above the total of their best pre-war years. The increase in finished steel is slightly greater than that in crude.

56. This growth in the production of the participating countries will compensate for the reduction in Western Germany's steel output below the inflated level reached during the years of rearmament; total production in 1951 will not significantly exceed the pre-war capacity of the area taken as a whole. Even with this expansion of output, indeed, the consumption of steel per head in the participating countries and Western Germany will be only one-third that of the United States.

57. The full programme is one of making maximum use of existing capacity, of modernisation, and to some extent of expansion. In the four year period, new capacity will be coming into operation in the participating countries at all stages of manufacture. It will add more to existing capacity for pig iron and crude steel than for finished steel where a relatively high proportion of the new construction will replace old plant. In most of the participating countries modernisation

and re-equipment will at all stages of the industry be more important than new construction; only about 20 per cent of the output in 1951 will be from new capacity. The modernisation programmes aim at increasing the efficiency of the industry as a whole, particularly in the use of fuel and manpower.

58. The building of new iron and steel-making capacity is a major operation. The countries represented at Paris have recognised the value of assembling data about future trends of steel supplies and requirements and the Committee has arranged for the interchange of information by the steel-producing countries about their programmes of modernisation and extension so that each country, in developing its programme, may take account of the plans made by the others.

59. Expansion of steel production will clear the way for a considerable increase in engineering output, particularly in those branches of the engineering industry which provide equipment for the key commodities and services. The bulk of the equipment required for these purposes will in fact be provided by the participating countries and Western Germany themselves. They will themselves produce about 90 per cent of their total requirements of mining equipment which are estimated at $3,700 millions; for the programme of generating plant extensions—$5,300 millions—the proportion is much the same; they will produce two-thirds of their petroleum equipment requirements, both for the domestic refining programmes and for development overseas; apart from certain special items, such as continuous wide strip mills, they will provide most of the plant required for the expansion and modernisation of their iron and steel industries; the European tractor and agricultural machinery industries are expanding fast and will suffice to cover the long-term requirements except again for special types of equipment.

60. The reconstruction of inland transport will make heavy demands on the iron and steel and engineering industries, for arrears of inadequate war-time maintenance must be made up as well as the expansion required in order to enable the railways to carry substantially increased loads in 1951. The increase in locomotives production should be sufficient to meet essential needs and to provide a margin for export overseas; production of freight cars, on the other hand, will be insufficient to make good the heavy war-time destruction. Requirements for passenger coaches are being kept down to the minimum and 90 per cent of them will be covered by home production. The production of the necessary rolling stock is a formidable task and the Committee has paid special attention to means of securing economy, both in their production and in their use. A proposal for an international freight car pool is being submitted for discussion

by the Economic Commission for Europe and the problem of standardisation of freight car design is being referred to the International Standards Conference.

61. The participating countries intend, during the next four years, to make good their war-time losses of 22 million gross registered tons of shipping tonnage. Part of this gap will be filled by purchases, but a far larger tonnage will be built in the participating countries' own shipyards. At the end of 1951 the merchant fleets at the disposal of the participating countries will be somewhat larger than in 1938, but against this must be set the disappearance of the German merchant fleet. This shipbuilding effort is a work of reconstruction which must be carried through if the participating countries are to be able to stand on their own feet.

62. The basis of all this constructional work is steel. Of other constructional materials, timber is one of which the participating countries and Western Germany are normally large importers. The supply of timber is crucial for mining, inland transport and shipbuilding—as well as for rebuilding the shattered cities. In spite of the overcutting of forests which has taken place during the war and thus the urgent need to return to sound timber economy, most of the participating countries have accepted the resolution of the Marianske Lazne Conference to increase production by 10 per cent in 1948 and 1949. At the same time the occupation authorities in Western Germany have adopted a policy of raising the rate of cutting in the forests which were carefully husbanded during the war. It is important that a continued effort should be demanded of timber production in Germany. It is entirely clear, however, that total supplies will be inadequate and will prevent the development of housing programmes which are urgently needed; in many countries the housing shortage is a cause of low productivity, and everywhere it is a check to the mobility of labour.

63. With one or two exceptions all the participating countries are experiencing labour shortage. This will continue during the period of expansion provided that the necessary supplies can be made available from overseas in order to enable the recovery programme to be carried out. The important exception is Italy whose normal increase in population is too great to be absorbed by any practicable expansion of agricultural and industrial production. It is possible that at a later date Western Germany might also be a source of labour recruitment. The present surplus Italian labour force of 2 millions would, if suitably trained, be enough to cover the needs of all the other countries. Considerable efforts have been made to transfer labour from Italy and some success has been achieved in this as well as in the

absorption of displaced persons now in Germany and Austria. Food and particularly housing shortages, however, present difficulties and it has not always been possible to devise adequate means of enabling Italians in foreign countries to send remittances back to their families at home. The Committee has recommended means of aiding the recruitment of immigrant labour, but the solution of the problem really turns upon better food and housing and improvement in intra-European payments arrangements. This problem, like the rest of the problems which confront the participating countries, can be solved only by the carrying through of the European recovery programme as a whole.

64. The participating countries are confident that this huge production programme can be achieved. If a good start is made, the programme will move with its own momentum; these modernization and development projects will all increase productivity and thus contribute to raising the general level of industrial production and exports. But the programmes as a whole are inter-dependent. Every element in them depends upon the others—mining machinery upon steel, steel upon coal, coal upon food—and in turn depends upon the availability of supplies from overseas in the right quantities and at the right times, upon the maintenance of internal financial stability and upon continuing and effective mutual help between the participating countries.

CHAPTER IV

INTERNAL ECONOMIC FINANCIAL AND MONETARY STABILITY

65. The success of the programme of the participating countries depends on internal economic financial and monetary stability being restored, or maintained. The production targets cannot be achieved nor can European co-operation be accomplished unless the economies of all the participating countries are sound and stable. Instability in any country affects the participating countries as a whole, for it hampers and distorts trade and prevents the affected countries from making their full contribution to the recovery programme.

66. All the participating countries are to a greater or lesser extent affected by inflation resulting from the war. This general inflationary pressure is generated by the reciprocal effects of a shortage of supplies of consumer goods on the one hand and the increase in money incomes on the other. The existence of a large volume of surplus purchasing power is in itself a great stimulus to this inflationary pressure and the growth of money incomes develops with cumulative force when it is fed by inflationary financing of budget deficits.

67. The strength of the inflationary pressure differs widely from country to country, partly according to the success of the efforts which the country makes to resist it and partly according to the circumstances of the country itself. In some countries relative stability of prices and wages has been preserved by drastic domestic policies of reducing purchasing power, controls, and rationing; where there is serious shortage of food and consumer goods, however, workers cannot spend their earnings to satisfy their normal needs, and the incentive to work is less than in normal conditions. In other countries a much more advanced stage of inflation has been reached; post-war budgets have not been balanced and there has been a continual rise in prices which inevitably leads to demands for higher money wages—a situation which is very difficult to cure and which threatens to lead to a distrust of the national currency. This has led in turn to the hoarding of food or to its disposal in the black market; agri-

cultural producers prefer to reduce their sales or not to sell at all because they cannot buy things with the money they obtain. Industrial workers spend much of their time looking for food and goods. People refuse to invest capital in fixed interest securities and seek to transfer it into gold or foreign exchange; capital held abroad is left there and becomes a hidden private asset which brings no benefit to the nation as a whole.

68. The countries represented on the Committee of Co-operation have pledged themselves that, where stabilisation programmes are required; they will carry them out in a spirit of determination. In particular, the Governments of the participating countries concerned undertake to carry out, independently of any external assistance the internal measures within their power in fiscal and currency matters, and also in the field of production, with the purpose of restricting forthwith calls on the bank of issue and other inflationary practices and of increasing the production of consumer and capital goods. Thus the French Government has made clear to the Committee of Co-operation its determination to meet from current revenue all budget expenditure including military and reconstruction expenditure in 1948, with the sole exception of expenditure in respect of indemnities for war losses to private property, and of industrial investment. Furthermore, the year 1948 will see the end of all new borrowing from the Bank of France. A comprehensive plan for economic and monetary stabilisation is being worked out and will be submitted to the next session of Parliament.

69. The Italian Government declares that special steps are now being taken with regard to finance and credit and that other such measures likewise intended to put internal finances on a sound footing will be introduced very shortly. Thus the Italian Government has decided that it will approve no new expenditure unless provision is made for revenue to a corresponding amount. Furthermore, a recent enactment forbids the Treasury to accept any new loans from the Central Bank, unless Parliament has specially authorized it beforehand to do so. The entire expenditure contemplated for the financial year 1947–1948—for which the total deficit is already substantially lower than that for the previous financial year—will have to be wholly covered by taxation, except for the special expenditure required for the economic rehabilitation of the country, which will be covered by internal and foreign loans.

70. Other countries, inter alia Greece, have also submitted statements to the Committee of Co-operation placing on record their resolve to achieve complete budget balance as quickly as possible. These statements are published in the second volume of this Report.

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71. It is essential to the success of the whole programme that stabilisation should be achieved as quickly as possible. In this respect the year 1948 is crucial. It will, in effect, determine the success of the efforts undertaken on the two major aspects of stabilisation. The first of these is the establishment of equilibrium between purchasing power and available commodities. The second is the prevention, in all cases where this is necessary, of the creation of new purchasing power, of which budget deficits are the main cause. If these two objectives are attained next year, the situation of Europe will be radically transformed. In all countries where there is at present a tendency to hoard and conceal resources, the country's external financial situation will be improved by putting to use all material resources which are at present concealed and by bringing back foreign exchange assets into normal circulation. In general terms, the restoration of a healthy economic and monetary situation with appropriate rates of exchange will stimulate production and exports and open new possibilities of foreign investment and commercial credits.

72. The quick success of stabilisation will to a very large extent depend on adequate foreign assistance being available during the period in which stabilisation is being achieved. If production falls below a certain level it becomes far more difficult to reach equilibrium between savings and taxes, on the one hand, and the needs for investment and for financing public expenditure, on the other, and this is especially true in a country where investment needs are increased by war destruction. But the production of the participating countries as a whole is still far below the level at which equilibrium can be attained and stability cannot therefore exist unless it is constantly reinforced by controls and rationing. The application of such a policy presents increasing difficulties over a long period and, as has been pointed out previously, may tend to react unfavourably on production. An interval must elapse before production can reach an adequate level, whilst external assistance will contribute to rapid stabilisation by assuring an adequate flow of imports so as to balance the national income and national outlay of the participating countries at a supportable level of consumption. In this way the financial and monetary bases for a sound economy can be rapidly re-established in Europe.

73. External assistance must be used in such a way that by the end of the period national income in its widest sense will cover national expenditure. The main aim should clearly be to reduce inflationary pressure where it exists.

74. If the gold and dollar reserves of the country concerned have been exhausted there may be real difficulty in maintaining or restoring confidence in the currency, even if the budget has been balanced and

the continual increase of purchasing power stopped, and even if sufficient external aid is forthcoming to permit the purchase of imports. It would assist the difficult and painful operation of bringing inflation under control and then stopping it, if supplementary external resources specifically designed to raise the country's gold and dollar reserves to an adequate amount were made available. Apart from its immediate purpose of stopping inflation and restoring confidence in the currency, this strengthening of the gold and dollar reserves would be of the greatest help to these countries when they had maintained or regained a position of stable equilibrium and would therefore be in a position to make their currencies convertible (as defined in the Articles of Agreement of the International Monetary Fund) if they possessed adequate gold and dollar reserves.

75. The amount of such resources that is required is the total of the amounts which the various countries concerned need to make up their gold and dollar reserves to a minimum level which will restore confidence. No precise calculation can be made of the amount required without examining the position of each of the countries concerned at the time when the stabilisation is undertaken. But from such estimates as can be made the amount likely to be required would be of the order of $3,000 million.

76. No country would expect such supplementary external resources to be made available unless it could demonstrate satisfactorily that they would be used to carry out a programme of stabilisation and eventually to make currencies convertible and would not be exhausted by financing imports.

77. The Governments represented on the Committee of Co-operation have pledged themselves after stabilisation has been fully achieved and can be successfully maintained to make their currencies convertible as defined in the Articles of Agreement of the International Monetary Fund at appropriate rates of exchange. The Governments concerned further pledge themselves that any external assistance received for this purpose will be used for this purpose only and applied in constructive and comprehensive measures to put an end to inflation and eventually, when the necessary conditions have been fulfilled, to make their currencies convertible.

CHAPTER V

ECONOMIC CO-OPERATION

78. In addition to the self-help represented by the individual countries production programmes and stabilisation plans, a wide range of actual and potential mutual help between the participating countries has emerged from the Committee's discussions. The work in Paris in fitting together the various production targets into a European programme; the undertaking by each country to the others to use its best efforts to carry out its production programme; the arrangements proposed for reviewing the progress made with the production programmes—these together constitute a significant step forward in European economic cooperation.

79. The controlling principle of the Committee's work has been the inter-dependence of the national economies of the countries covered by this Report, and if these countries are to proceed quickly along the road to recovery, they must proceed together. In each subject examined by the Committee, therefore, the first step has been to see how far the various countries can meet each other's needs, and full account has been taken of the possibilities of mutual help through the interchange of goods in assessing the requirements to be met from the outside world.

80. The structure of the European economy as it existed before the war was already a highly developed system of mutual help. It was founded upon the specialisation of human skill and industrial capacity which was in fact responsible for the relatively high standard of living which these countries enjoyed in relation to their limited natural resources. The economic life of some of these countries was based largely upon supplying others; some of the participating countries are more closely integrated together than others, but between all of them there are close traditional links which form a natural bond, and which they have been striving to re-forge after the disruption of the war. It is therefore entirely natural that a complicated network of mutual help should exist, and that it should develop further as production grows.

81. In every one of the products examined by the Committee, national production programmes are being developed which will also

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satisfy the needs of other European countries and so reduce the deficiencies which at present must be supplied from the outside world and in particular from the American Continent. The food-exporting participating countries are planning to increase their export surpluses as fast as they can, and in meat, dairy produce and fruit these will make a large contribution by 1951; the United Kingdom coal development programmes, carried out at very large capital cost, will begin to make supplies available for other participating countries in 1948, rising to 29 million tons a year in 1951; the expansion programmes for agricultural machinery and nitrogen fertiliser, besides providing for the needs of the countries which are carrying them out, will also supply other participating countries' needs and will permit a rapid reduction in the supplies required from the United States; cooperative measures are being taken to increase the production of timber; most of the work of rebuilding the merchant fleets of the participating countries is being carried out in their own or each others' yards. Much of this mutual help arises in the normal course of trade, but there have been certain special cases, such as that of hard coke and coking coal, in which particular arrangements have been worked out.

82. If the increased production resulting from these programmes is to make its full contribution to the restoration of the European economy and the reduction of abnormal demands on the rest of the world, it must be accompanied by a freer movement of goods and services within Europe itself. This movement is now hampered by quantitative restrictions on imports and exports, by measures which countries have been forced to take to balance their trade with each other bilaterally and by restrictions on the movement of men and women. To achieve the freer movement of goods, the participating countries are resolved:—

(i) to abolish as soon as possible the abnormal restrictions which at present hamper their mutual trade;

(ii) to aim, as between themselves and the rest of the world, at a sound and balanced multilateral trading system based on the principles which have guided the framers of the Draft Charter for an International Trade Organisation.

83. The present abnormal restrictions on imports and exports are necessitated by balance of payments difficulties and supply shortages. European countries are not alone today in being forced to impose quantitative restrictions on imports and exports for these reasons. There are, however, serious and practical dangers for the participating countries if these restrictions are more stringent than is necessary and if they are retained in operation longer than is justified by the balance of payments difficulties of the countries which impose them.

Europe's welfare depends upon its ability to sell a large and increasing volume of goods to the American Continent, and to other parts of the outside world including those areas in the economic development of which Europe has traditionally played so large a part. It will be impossible to develop the efficient and varied production which will be required for this purpose if uneconomic production is stimulated and if artificial price structures are perpetuated. It will in any case be impossible for the participating countries to build up their exports to the necessary extent unless a sound and balanced multilateral trading system develops in the world and the principles of the Draft Charter for an International Trade Organisation are carried into effect.

84. An early relaxation of restrictions on trade within Europe, so far as the balance of payments position of each country permits, and a return to a multilateral non-discriminatory system of trading within Europe will thus help materially to encourage development on economic lines during the vital period of recovery. The restrictions, as they varyingly affect different goods, will have to be relaxed progressively; it is not possible to envisage the immediate elimination of all import and export restrictions between the participating countries.

85. When producton sufficiently increases countries at present maintaining export restrictions will abolish them. As regards import restrictions, an essential condition for the freer development of European trade on a multilateral basis is that balance of payments difficulties should be progressively reduced. These difficulties will diminish as production increases, internal stability is re-established and export trade expands. As they diminish, the participating countries will reduce progressively restrictions on their mutual trade. This would be facilitated by the adoption of a system of transferability, designed to make European currencies interchangeable, as proposed by the Committee of Financial Experts in Chapter II of their Report,[1] on which a meeting of experts is to be held in London on the 22nd September.

86. As soon as by this and other means the necessary conditions for the relaxation of restrictions come to exist, the participating countries will immediately start the liberalisation of their mutual trade in conformity with the principles of the draft Charter for an International Trade Organisation. This will include measures, such as open quotas or open general licences for certain goods, aimed at giving importers greater freedom of choice of source of supply according to commercial considerations of relative price and technical suitability.

[1] See Appendix E.

The Governments of the participating countries will consult one another, as soon as greater flexibility in payments arrangements has been achieved over a sufficiently wide area, on these steps for the liberalisation of their mutual trade, with which they hope other European countries will associate themselves. These steps will be designed to lead eventually to the complete elimination of quantitative restrictions imposed for balance of payments reasons, both within Europe and in relation to the rest of the world, when equilibrium in balance of payments is achieved.

87. As quantitative restrictions are progressively eliminated, tariffs will re-emerge as the principal factor influencing the flow of trade between the participating countries. The levels of these tariffs vary and they are by no means universally high. Existing or prospective tariff levels, not only in Europe but also in the rest of the world, are, however, important in the influence they may have on plans for developing production.

88. The extent to which the interchange of goods is likely to be impeded by tariffs is, therefore, of fundamental importance for the future development of the European economy on sound lines. The Draft Charter for an International Trade Organisation offers two lines of attack on the problem of tariffs. It is the basic aim of the Draft Charter to secure the progressive world-wide reduction of tariffs on a multilateral basis, but it also provides for the possibility that groups of countries may wish to form Customs Unions.

89. The world-wide reduction of tariffs on a multilateral basis is both necessary and beneficial for the European economy. This reduction is necessary in order to provide increased overseas outlets for the indispensable exports from the participating countries; at the same time, it is beneficial in its influence on the pattern of economic activity within the participating countries as a group. A start has been made in the negotiations at Geneva with a multilateral reduction of tariffs. It is essential that efforts should be made to secure further progressive reductions in tariffs on this multilateral basis, and in these efforts the participating countries are prepared to play their full part.

90. The Committee has considered the question of Customs Unions as a means of achieving the speedier reduction and eventual elimination of tariffs between a group of countries. The advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers are manifest. Under different circumstances and on a smaller scale the decision of Belgium, Luxemburg and the Netherlands to form a Customs Union is an instructive example of mutual cooperation in this field.

91. The formation of a larger free trade area in Europe could be expected to lead to greater efficiency in many sectors of production and this would not only increase the wealth of the countries concerned, but would also be of assistance in solving the fundamental problem of the European balance of payments. It cannot, however, be regarded as a solution of this problem, for this is a world problem and cannot be solved without the closest possible economic association with countries outside Europe from which the participating countries derive the bulk of their essential imports. The development of trade with the American Continent and with the rest of the world, including Eastern Europe, is of crucial importance for the participating countries.

92. No Customs Union can be brought into full and effective operation by a stroke of the pen. A Customs Union, particularly between several large and highly industrialised countries, involves complex technical negotiations and adjustments which can only be achieved by progressive stages over a period of years. Special problems also arise for countries with a high proportion of their trade outside any proposed Customs Union, or as between countries at widely differing stages of economic development.

93. Nevertheless, the idea of a Customs Union including as many European countries as possible is one which contains important possibilities for the economic future of Europe and it is in the general interest that the problems involved should receive careful and detailed study by Governments. Several steps have already been taken in this connexion.

94. The Governments of Belgium, Luxemburg and the Netherlands signed a Customs Convention in London on 5th September 1944. This was elaborated and interpreted in a protocol signed at The Hague on 14th March 1947. The Customs Union of Belgium, Luxemburg and the Netherlands will apply identical rates of duty to imports of merchandise in accordance with the tariff annexed to this convention. The convention has been approved by the parliaments of the three countries and will enter into force by 1st January 1948. The three countries propose thereafter to conclude an economic union. To this end proposals regarding the unification of excise and transit taxes will shortly be submitted for the approval of the three Governments. In the commercial exchanges between the three countries a start has already been made with the relaxation of quantitative restrictions which have been abolished for certain products.

95. The four Scandinavian countries, namely Denmark, Iceland, Norway and Sweden, have announced, after a meeting of the Foreign Ministers which took place in Copenhagen on the 27th and 28th

August that they were taking steps to examine immediately the possibility of an extension of the economic cooperation between their countries, including the question of the elimination, wholly or partly, of the customs frontiers between the four countries.

96. A number of Governments represented on the Committee of Cooperation made on 12th September the following declaration:—

"During the course of the discussions of the Committee of Cooperation in Paris, it has been agreed that every available means should be found of promoting a stable and healthy economy in Europe within the framework of expanding world trade. As a contribution to the attainment of this objective the possibility of forming a Customs Union or Unions in accordance with the principles of the draft Charter for the proposed International Trade Organisation has been raised, and it has been recognised that decisions to form such Unions cannot be taken without preliminary study.

The Governments of Austria, Belgium, Denmark, France, Greece, Ireland, Iceland, Italy, Luxemburg, the Netherlands, Portugal, the United Kingdom and Turkey have accordingly decided to create a Study Group for the purpose of examining the problems involved and the steps to be taken, in the formation of a Customs Union or Customs Unions between any or all of those Governments and any other Governments invited to participate in the work of the Study Group. The Governments of Belgium, Luxemburg and the Netherlands have agreed to act as sponsoring powers. They are arranging for invitations to join the group to be issued to other States and will convene a first meeting of the Study Group as soon as sufficient opportunity has been given for other States to signify their desire to adhere to the Study Group.

The Study Group will seek to establish appropriate relationships with the Interim Tariff Committee to be set up under the General Agreement on Tariffs and Trade, and with the International Trade Organisation as soon as it is established".

97. The Governments who have set up this Study Group believe that it should be possible within three months of the first meeting to produce a first report describing the problems involved and the programme of discussions which would be necessary between the countries wishing to form a Customs Union. These discussions would, in particular, need to include examination of the possibilities of establishing a common tariff, as such examination is understood to be a necessary preliminary to any decision by Governments to enter into a Customs Union.

98. In this connexion The French Government has made the following declaration:—

"The French Government being of the opinion that the barriers which now exist in the way of a freer exchange of goods and capital, and of a freer movement of persons between the various European countries, constitute one of the most important obstacles to the economic recovery of these countries;

that in the present state of the world only economic units sufficiently large to have at their disposal an important home market are able to lower the price of industrial and agricultural production sufficiently to ensure, thanks to better technique, an improved standard of living for their people and to allow the countries concerned to withstand world-wide competition,

that the present division of Europe into small economic units does not correspond to the needs of modern competition and that it will be possible with the help of Customs Unions to construct larger units on the strictly economic plane.

that these units must not be in any way "autarchic" in character but on the contrary should increase their trade to the utmost with all other countries or economic groups of countries to the maximum degree;

that the formation of such Customs Unions is foreseen in the draft charter for an International Trade Organisation;

declares that it is ready to enter into negotiations with all European Governments sharing these views who wish to enter a Customs Union with France and whose national economies are capable of being combined with the French economy in such a way as to make a viable unit.

It will be necessary for the formation of such unions to be spread over a period of years long enough to allow for the necessary adjustments, so that the agricultural and manufacturing activities in the contracting countries do not have to suffer a sudden change in the conditions in which they at present operate.

The starting point for this period of establishment should be fixed by mutual agreement as from the moment when the contracting countries have succeeded in achieving internal economic and monetary stability.

In the course of this period, steps will be taken progressively to achieve the Customs Unions contemplated by the reduction of tariffs and the elimination of quantitative restrictions.

The French Government considers, furthermore, that the achievement of the foregoing would be greatly hastened and eased by such

external help as Europe may be in a position to obtain in order to re-establish equilibrium in its economy and finances".

99. The Italian Government having, from the outset of the Conference, raised for discussion the problem of Customs Unions, wishes to associate itself with the above declaration by the French Government which, in its view, is in general conformity with the proposals submitted by the Italian Delegation to the Committee.

100. In order to examine the conditions under which a Franco-Italian Customs Union could be achieved, the Governments of France and Italy have decided to set up a Study Group charged with reporting to the two Governments on the subject before the 1st January, 1948.

101. The Greek and Turkish Governments made the following declaration on 19th September:—

"The Governments of Greece and Turkey have already made known the interest which they attach to the idea of the creation of a wide European economic unity. They will offer full collaboration to the work of the Study Group created with this aim, and with the same object in mind will devote all their attention to the study of a regional Customs Union between these two friendly and neighbouring countries".

102. As important to recovery as the free movement of goods is the free movement of the labour supply. The Committee has therefore made a series of recommendations which will make easier the migration of labour from countries which have a surplus of manpower to those in which there is an unsatisfied demand for labour. It is important that these recommendations should be acted upon without delay as, when the production programmes get under way, there is enough work ahead in most countries to provide full employment for many years to come, provided that the flow of raw materials from the outside world can be maintained.

103. Tourism is one of the invisible exports upon which the participating countries will increasingly rely as a means of balancing their accounts with the rest of the world. In this field, as in that of trade, the relaxation of restrictions would be of assistance towards the main objective.

104. In developing projects for general European co-operation the Committee has concentrated as far as possible on removing the obstructions to the free flow of normal productive energies and trade. There are, however, fields where collective action is desirable to secure the most efficient development of European resources. Four striking examples are dealt with below.

105. Firstly, a series of projects is being developed for common planning of the exploitation of new sources of electrical power. The plan which has been selected by the Committee provides for the erection of a series of power plants to exploit the hydroelectric resources of the Alps, certain German lignite deposits and Italian reserves of geothermic energy. This work involves the co-operative development of resources cutting across frontiers and the decisions are being taken without regard to national frontiers. Preparation of periodic revisions of a survey of European large scale power resources and the study of the desirability of establishing an international high tension network represent similar fields for continuing common planning.

106. Secondly, the participating countries are seeking to increase the efficiency of production by encouraging the standardisation of certain types of equipment. These include mining and electrical supplies and freight cars on which it is proposed that the International Technical Standards Conference should be asked to report.

107. Thirdly, there is the possibility of securing a more efficient use of freight cars by pooling arrangements and further transport economy might be secured by international study of the flows of traffic.

108. Fourthly, in view of the high cost of installation of steel producing capacity, arrangements are being made for the interchange of information by the steel producing countries about their programmes of modernisation and extension so that each country, in developing its programme, may take account of the plans made by the others.

109. The means of mutual help between the participating countries are so diverse that they cannot be listed as a series of measures. Much of the mutual help consists of normal trade and will grow accordingly as production expands; some of it consists of specific action between two or more governments; some of it consists of wider governmental action in order to provide a general freeing of trade and payments arrangements; some again consists of wider governmental action to solve particular problems or to allocate particular supplies. In most of these cases other governments are involved besides those of the participating countries.

110. Wherever suitable international machinery exists, it is the desire of the participating countries that these tasks should be effectively followed up within the framework of the United Nations. Many of the reports of the Technical Committees accordingly state that suggestions for continued study of some of the production problems will be made by interested governments at the forthcoming meetings of the Committees and Sub-Committees of the Economic

Commission for Europe. In this way problems which are also of concern to countries not represented on the Committee of Co-operation could usefully be examined on a wider basis and for the benefit of Europe as a whole. It should be noted that five out of the sixteen participating countries, not as yet being members of the United Nations, are not members of the Economic Commission for Europe. They are, however, being invited to attend the forthcoming meetings of those Committees of the Commission in whose subjects they are interested. It is hoped that the work for which this report indicates the need may be carried out effectively in the same spirit of co-operation and in a wider forum.

111. The Committee of Co-operation was set up as a special temporary organisation whose functions should consist of preparing a programme of European recovery, having in view a period of four years. This initial work has now been completed. The present session of the Committee is therefore over. But there is a second stage, which is the examination of the Report in the United States. The Chairman, the Rapporteur General, delegates from participating countries and a number of technical experts will therefore hold themselves in readiness to provide the United States Government with information concerning the Report. The Committee may be reconvened, should this be necessary, at the request of the Chairman, after mutual consultation.

112. The measures outlined in the preceding paragraphs will continue, in practical and concrete form, the co-operation achieved in preparing this Report for presentation to the Government of the United States. The experience of the Committee of Co-operation in Paris has strikingly proved the value of joint discussion of common problems. The Governments of the participating countries regret that other European countries have not been able to associate themselves with this work, but still hope to bring about a more complete co-operation among all the countries of Europe. To this end, and with a view to continuing the work of economic co-operation which has been started in Paris, the participating countries declare their willingness to engage in mutual consultations and to exchange views with other European countries whose resources can contribute to the solution of the economic problems of Europe. Such consultation will take place to the fullest extent possible within the frame-work of the United Nations and international economic organisations.

113. The Committee believes that if means for carrying out the programme are made available, a joint organisation to review progress achieved in the execution of the programme will be necessary. The participating Governments declare themselves ready in this event to

set up such an organisation by mutual agreement. This organisation will ensure, to the full extent possible by joint action, the realisation of the economic conditions necessary to enable the general objectives to which each country has pledged itself to be effectively achieved. The organisation will make periodical reports to the various European Governments on the extent to which the programme is being realised. The Governments will supply the organisation with all information required for this purpose. The organisation will be of a temporary character and will cease to exist when the special aid necessary for the recovery of Europe comes to an end.

114. The participating countries fully realise the importance which attaches to the achievement of the programme, through both national and collective action, for the future of the European economy and for the well-being of the world as a whole. They are determined at the appropriate time to make the necessary arrangements to co-ordinate its execution.

CHAPTER VI

THE IMPORT REQUIREMENTS

115. In order to carry out their production effort, and after making full allowance for mutual help, the participating countries and Western Germany need a continuous flow of goods and services from the rest of the world, and in particular from the American Continent. This flow may be interrupted because of shortage of supplies or because of inability to pay for them. Such interruption would set the whole programme back, and would create further dislocation. This reliance upon a continuous flow of imports is the normal state of European countries; it has been intensified by the war and its aftermath, but the position is not now fundamentally different from what it has been for the last fifty years.

116. An import programme has been developed for these countries for the years 1948 to 1951. It is based primarily upon the work of the Technical Committees, which have estimated the amount of supplies likely to be available for participating countries and Western Germany, and have valued them at the prices ruling on 1st July, 1947. For imports not covered by the Technical Committees, the various countries submitted estimates of their requirements. These estimates were on the basis that sufficient raw material imports would be provided to make possible the full production effort, whilst standards of consumption during the period would not exceed the levels which the various countries would expect to be able to afford to main-

tain at the end of the period without special external aid. The resulting programme is as follows:—

Table 4—Import Programme of the Participating Countries (excluding their dependent territories) and Western Germany

Note: The following figures indicate the quantities involved, and no adjustment has been made to take account of changes of relative prices of imports and exports. The figures used are not the same as those used in computing the deficit for 1949–51.

($000 millions at prices of 1st July, 1947)

	From U. S. A.	From rest of American Continent	Total from American Continent	From other non-participating countries	Total
1948	6. 0	3. 2	9. 2	4. 7	13. 9
1949	5. 3	3. 9	9. 1	5. 4	14. 5
1950	4. 8	3. 8	8. 6	5. 9	14. 5
1951	4. 3	3. 9	8. 2	6. 2	14. 4

117. This total import programme will be somewhat larger in volume than the normal pre-war imports from these groups of countries. But its distribution will be very different. Before the war some 45 per cent of the participating countries' imports from the rest of the world came from the American Continent; in 1948, the proportion will be two-thirds. There has been a serious loss of supplies from non-American sources, and the effect of this is a very large increase in the requirements from the American Continent. This indeed is a main reason why the latter are high; the loss of non-American sources of supplies is of decisive importance. This loss cannot be measured precisely, but it may be roughly estimated that more than one-quarter of the import requirements from the American Continent at the beginning of the four-year period are attributable to this cause.

118. This arises mainly from the war devastation in Eastern Europe and the Soviet Union. The participating countries cannot rely upon supplies from the Danubian granary, and very little is now coming westward from there. The Western Zones of Germany are unable to draw from their natural source of supply—Eastern Germany—and

the result is that Western Germany now emerges as a large food importer; not only is the population of Western Germany one-sixth above pre-war, but it must also seek entirely new sources of food supply. Eastern European sources of timber supply have now ceased, and the Soviet Union's reconstruction needs will make heavy calls upon them for many years to come; before the war, the Soviet Union and the Baltic States supplied 25 per cent of the sawn softwood needs of the participating countries and Western Germany, 40 per cent of the plywood and 30 per cent of the pitprops.

119. It is reasonable to expect that the westward flow of food and agricultural and forestry products will gradually be resumed. Certainly the participating countries intend to do what they can to encourage its resumption. But even on favourable assumptions about the availability of supplies in the east, progress is bound to be slow, and the abnormal dependence upon the American Continent will remain. A substantial and steady resumption of Eastern European food, feeding-stuffs, and timber supplies is assumed in this report; the pre-war flow of cereals from Eastern Europe is assumed to be restored by 1951, and the supplies of timber are assumed to reach 75 per cent of pre-war by 1951. But even so, the proportion of food and feeding-stuffs imports from the American Continent is still 55 per cent in 1951, compared with 42 per cent in 1938, and the proportion of timber imports still 31 per cent compared with 24 per cent in 1938.

120. The loss of supplies resulting from the war and aftermath of war in South-East Asia is also important. There has been direct loss of important foods—sugar, oilseeds, rice—which has forced European consumers to seek larger supplies from the American Continent. Perhaps ever more significant, however, has been the drain upon the world's cereals resources to feed these countries; the fall in Burma's rice output has, for example, forced many Asiatic countries to import wheat to keep their peoples alive, and also to divert food for home consumption which would otherwise be exported. Here again, this report assumes a steady recovery in these Asiatic supplies during the period; but the process is slow, and meanwhile there is further pressure upon American sources.

121. The effect of this is that the participating countries and Western Germany must necessarily seek to develop larger import pro-

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grammes from the American Continent than they would have done normally. The following is the programme:—

Table 5—Import Programme of the Participating Countries (excluding their dependent territories) and Western Germany from the American Continent

Note: The following figures reflect the quantities involved, and no adjustment has been made to take account of changes of relative prices of imports and exports. The figures used are not the same as those used in computing the deficit for 1949–1951.

($000 millions at prices of 1st July, 1947)

	1948		1951		Total 1948–1951		
	U. S. A.	Rest of America	U. S. A.	Rest of America	U. S. A.	Rest of America	Total
Food, Fertiliser	1. 5	1. 8	1. 2	2. 2	5. 4	8. 3	13. 7
Coal	0. 3	------	0. 05	------	0. 7	------	0. 7
Petroleum Products*	0. 5	------	0. 55	------	2. 2	------	2. 2
Iron and Steel	0. 4	neg.	0. 3	neg.	1. 2	0. 1	1. 3
Timber	0. 1	0. 2	0. 1	0. 1	0. 4	0. 6	1. 0
Equipment covered by Technical Committee	1. 1	neg.	0. 6	neg.	3. 3	0. 1	3. 4
Other imports	2. 1	1. 2	1. 5	1. 6	7. 2	5. 7	12. 9
Total imports	6. 0	3. 2	4. 3	3. 9	20. 4	14. 8	35. 2
Shipping services	0. 6	------	0. 3	------	1. 7	------	1. 7

* Amounts required from dollar sources.

122. These imports are essential for the production programmes. The participating countries and Western Germany will need to maintain a continuously high level of imports from the American Continent long after 1951. But there are some elements in this programme which are purely temporary in character and arise directly from the effects of war disruption upon the countries' own resources. The chief examples are shipping, coal, nitrogen fertiliser and certain capital equipment.

123. In order to cover their shipping needs after allowing for the shipping services which they can provide for themselves and for one another, the participating countries and Western Germany are estimated to require 10.3 million deadweight tons of dollar tonnage in 1948. This figure will be rapidly reduced to 2.2 million deadweight

tons in 1951, which would substantially represent the shipping services to be rendered to the participating countries and Western Germany by the United States and other flags in the normal course of shipping trade. The need for tankers will rise steadily with the expanding petroleum imports, but the needs which cannot be met by the participating countries from their own resources are not more than the United States oil industry would be expected to provide in the normal course of business for the transport of its trade with the participating countries and Western Germany.

124. The requirements of imports of United States coal will likewise fall fast, as United Kingdom and Ruhr output expands, and as increased supplies come forward from Poland:—

Table 6—Solid Fuel Import Requirements of the Participating Countries

(Million tons)

	1948	1951
From U.S.A.	41	6
From Poland*	17	31
	58	37

*Including small amounts from other countries. The Polish figures are based upon estimates supplied by the Polish Government to the European Coal Organisation.

125. The programme for imports of capital equipment includes many items which the participating countries would normally produce for themselves, but which they cannot yet produce in sufficient quantities to meet their needs over this period of rapid expansion. These include mining equipment, electrical plant and freight cars, and also, in the first year, a small amount of medium and light tractors. For all these items the participating countries and Western Germany will even in 1948 be able to provide 80 per cent or more of their requirements, and their import requirements will fall steadily throughout the period from about $450 millions in 1948 to $100 millions in 1951.

126. Rather more important, however, are the types of equipment and machinery in which the United States specialises. Of these items, petroleum equipment and steel plant will remain relatively constant at $300 millions a year throughout the period, but the requirements of heavy tractors will, as agricultural re-equipment progresses, decline by 50 per cent. The total import requirement of equipment

(temporary and long-term) in the field covered by the Technical Committees—the bulk of the total of equipment of all kinds—is $1,100 millions in 1948 and falls to $600 millions in 1951—a sum of $3,400 millions for the four-year period, of which one-third is agricultural machinery. Further requirements of equipment, ranging from replacement parts to complete machines, are included in "other imports", and may be estimated at about $1,150 millions in the four years.

127. Petroleum is one of the largest items; as explained in paragraph 48, a heavy increase in consumption is expected and the total requirements of the participating countries and Western Germany and their overseas territories are expected to rise from 48 million tons in 1947 to 77 million tons in 1951. The estimates have been prepared on the assumption of some continuing restrictions on gasoline consumption by private motorists. This expansion of petroleum consumption will bring consumption per head up to only about 15 per cent of that now ruling in the United States.

128. Of iron and steel imports, those for finished steel other than sheets and tinplate will only be required in the first year. But the import demand for semi-finished steel and tinplate will remain relatively constant throughout the period. A large part of the participating countries' import requirements for sheets may be able to be met from the Bi-Zone of Germany. Import requirements of raw materials required for steel making and, in particular, scrap will increase during this period. The import programme for the other raw material dealt with by the Technical Committees—timber—has been related to the estimated available supplies.

129. Most of the "other" imports—that is, the imports not covered by the reports of the Technical Committees—are the raw materials normally needed for Europe's economy. They include a wide range of materials and semi-manufactures of which cotton and non-ferrous metals are particularly important. Import requirements of these raw materials will increase as production expands. The estimates submitted by the various countries were scrutinised and in certain cases adjustments were made. Wherever projected imports in 1948 appeared to exceed in quantity the imports in 1938, the figures were examined and enquiries made. For a number of countries, however, 1938 was a year of very low economic activity and requirements would be higher in conditions of full employment and active production effort. The estimates for woodpulp for paper-making were specially examined and it was decided to reduce the stated overall requirements in 1948–51 by 20 per cent because of world shortage of supplies; this adjustment reduced the requirements to approximately the rate of supplies available in 1947. The figures submitted by the

countries estimating for years ahead are necessarily subject to error, for it is impossible to predict the course of development of every industry. But it is believed that the statements show accurately the order of magnitude.

130. The "other" imports contain in certain cases allowance for imports of manufactured consumer goods. The policies underlying the import estimates of the various countries in this field being based on what they expect to be able to afford after the end of 1951 are not the same, for some can afford a more liberal import policy than others. It is unlikely, however, that this difference in import policy in the estimates of manufactured goods imports significantly distorts the total of the import programme.

131. The import programme for food and feeding-stuffs represents not the requirements but an estimate of what will be available for the participating countries and Western Germany. This is short of the requirements which were submitted by the countries; these show exceptionally large import needs in 1947–48 because of the failure of the harvest:—

Table 7—Import Requirements of Food and Feeding-Stuffs from Non-Participating Countries

(Million tons)

	1934/8	1946/7	1947/8	1950/1
Bread grains	14. 0	15. 3	23. 7	17. 9
Coarse grains	11. 4	4. 7	8. 6	11. 7
Sugar	2. 7	1. 7	1. 7	2. 3
Meat	1. 7	1. 6	2. 1	2. 5
Fats (oil equivalent)	2. 7	1. 1	1. 7	2. 3
Oilcake [1]	5. 0	1. 9	3. 5	5. 4

[1] Including the oilcake content of imported oilseeds.

132. This series of requirements is very modest in terms of consumption. It provides in effect a maintenance in 1947–8 of the consumption of bread grains in 1946–7 of 158 Kg. per year, compared with pre-war consumption per head of 196 Kg. The import requirement for 1950–51, assuming full success of the agricultural programmes, is equivalent to bread consumption of 179 Kg. per head, or 7 per cent below pre-war; by then, the population will be 11 per cent above pre-war, and this explains the inadequacy of the imports to provide a satisfactory consumption level. Similarly the consumption levels aimed at in 1950–1 in framing the import requirements of

sugar, meat and fats are below the pre-war level though above that which is now ruling. The average consumption figures conceal wide differences between the consumption of the various participating countries. The consumption per head implied in the requirements is as follows:—

Table 8—Food Consumption per Head

(Kg. per head per year)

	1934–38	1947–48	1950–51
Bread grains	192	159	179
Potatoes	236	228	243
Sugar	27. 4	20	25. 2
Meat	42. 9	30	37. 6
Fats (oil equivalent)	24. 1	17. 0	22. 6

133. The import requirement for cereals is about 30 million tons in each of the four years. In the year 1947–8 the available supply for the participating countries and Western Germany is estimated at about 20 million tons, and the Committee has estimated availability of 25 million tons in the later years—the same imports as pre-war, but these estimates are necessarily dependent on the size of future harvests and how the crops are organised and utilized and some improvement can be hoped for. Actual supplies to consumers will therefore fall appreciably short of the levels in Table 7 in the current year—which is bound to set back the European livestock programmes again. Even in 1951, cereal consumption will still be far below pre-war. Similar adjustments were made to the meat and oilcake requirements.

134. In the last few weeks the crop prospects have worsened considerably as the result of widespread droughts. In Canada, too, the wheat crop is lower than last year, while in the United States the maize crop has declined sharply. Fortunately, the United States wheat crop is the highest on record. Intensified collection and conservation measures will be undertaken by the participating countries in order to reduce the adverse effects of the agricultural set-back. But if they are to ensure the maintenance of a minimum supply of cereals for human consumption and avoid a large reduction in livestock numbers which would put back the prospects of agricultural recovery for some years, they will have to receive additional assistance from oversea supplying countries. Such assistance may involve a great effort on the part of the exporting countries. The participating

countries hope, nevertheless, that in the interests of world recovery, the necessary assistance will be forthcoming.

135. It is not possible to say in advance which cereals from which source will go to which country. It is therefore impossible to specify how much of the 20 million tons of cereals in the current year and of the 25 million tons in the following years will be required from the United States, or from any other source. A general division has been made, however, in order to calculate the financial figures in Table 5; up to 20 million of the 25 million tons which is estimated to be available for Europe in the next few years may come from the American Continent, and the demand upon the United States might vary between 8 and 9 million tons. Although the *total* cereal imports into Europe will not exceed pre-war, large imports will be needed from the American Continent to make good the loss from other sources.

136. It must again be emphasised that if these estimates are carried out, even in four years' time the consumption of food in Europe will still be significantly below pre-war—even assuming full success of the agricultural programmes. The hard fact of this report is that there is not enough food in the world to give Europe as much as it had pre-war, and that even in 1951 supplies will still be very short, although the fats situation will be greatly relieved.

137. This analysis of Europe's import requirements from the American Continent shows that the size of this programme results primarily from the interruption of supplies from non-American sources; there are relatively few temporary imports the need for which will rapidly decline, and there are relatively few long-term imports for major capital projects. Most of the imports are needed for the day-to-day running of the European economy. Without these running supplies, life comes to a stop, and the working capital of Europe, far from being increased as it needs to be, will be exhausted.

138. This import programme, which is essential for the production effort, raises most difficult financial questions. For it appears from the analysis that this is a continuing problem. The participating countries and Western Germany must continue to rely (as they have always done) on substantial imports from the American Continent unless they are to reduce food standards to a point at which they damage industrial and agricultural production, create unemployment for lack of fuel and raw materials, and abandon the production effort which is Europe's one hope of recovery.

CHAPTER VII

THE PROBLEM OF PAYMENTS

139. The payments problem is the financial counterpart of the unbalanced flow of goods and services across the Atlantic. The financial figures are the clearest means of illustrating and expressing the size of the problem that exists and its bearing upon the common affairs of the participating countries and the United States. It is not the purpose of this report to propose solutions for this problem. The Committee is here concerned to indicate the scale of the problem and to show the financial implications of the maladjustment between the productive power and resources of the American Continent and those of the participating countries which has resulted from the war.

140. For this purpose a common account has been prepared which shows the deficit of the participating countries and Western Germany in their trading relations with the American Continent and with other non-participating countries. This account has been prepared on as realistic a basis as possible. It must be emphasised that it is not the sum of individual balance of payments estimates submitted by the various participating countries. Independent estimating leads to inconsistencies; all the countries would necessarily make different and incompatible assumptions about the supplies which they could expect to receive from the various sources. The account is therefore based upon the common import programme described in the previous chapter, together with estimates on the income side supplied by the individual countries. The account is built primarily from the experts' view of the prospective commodity supply to the participating countries and Western Germany as a whole, rather than from independent and uncoordinated financial estimates from the individual countries. In this way it presents a genuine picture of the relations between the participating countries and Western Germany and the American Continent.

141. The analysis deals with trade with the American Continent rather than with trade with the United States itself. The reason for this is that in general Canada and Latin America require to be paid for their supplies in United States dollars or the equivalent, for their economies rest upon their ability to earn United States dollars by

their exports to Europe in order to pay for their import requirements from the United States itself. Of course participating countries have to pay dollars for supplies from certain other non-participating countries, and they cannot in general collect dollars for any export surplus which they may have with non-participating countries outside the American Continent. The problem is not confined to the American Continent, but spreads round the world. Nevertheless, the main element in the problem is the deficit with the American Continent, and the Committee decided to express the problem in these terms without going into the special conditions arising in trade with other non-participating countries.

142. The scale of the dollar problem in 1948, as revealed in this common account, is illustrated in the following table:—

Table 9—Balance of Payments of the Participating Countries and Western Germany in 1948

($000 million)

	American Continent	Other non-participating countries
Imports	−9. 17	−4. 70
Exports	+2. 16	+4. 30
Net surplus (+) or deficit (−) on invisible account	−0. 57	+0. 38
Dependent territories, net surplus (+) or deficit (−)	−0. 45	−0. 22
Total	−8. 03	−0. 24
Estimated imports include $918 million for equipment, other than agricultural and mining machinery, to which special considerations apply.* If imports of equipment were financed by loans from the International Bank or other credit operations, the deficit to be dealt with by other means would be reduced to		−7. 11

*See paragraph 139.

143. Unless means can be found of filling this gap, Europe will be unable to receive the flow of goods and services which its recovery requires, and a catastrophe will result.

144. It must be emphasised that the table does no more than illustrate the prospective size of the dollar deficit in 1948. It does not state how much special assistance is required. This is because some of the deficit can be covered by other means; loans from the International Bank, to the extent that they are actually used in 1948, contribute towards filling the gap; so do other forms of lending; so does the expend-

iture of other financial resources by the participating countries. But at the same time it is clear that these other resources can fill only a relatively small part of the gap, and most of the participating countries will have dollar payments to make in other parts of the world as well.

145. The reasons why the deficit with the American Continent is of this size are explained in the appended report of the Balance of Payments Committee. The normal pattern of trade between the participating countries and Germany and the American Continent was a substantial deficit against the former on trading account; this deficit was $1,450 millions in 1938. This adverse trade balance was offset by the participating countries' earnings on invisible account, by the sale of Colonial produce to the United States, and by earnings of dollars from sales to the rest of the world. This was the customary process of multilateral trade.

146. All these factors have been distorted by the war. The foreign investment income is gone; there is a big dollar bill for shipping services; tourist income has not yet recovered. At the same time, the loss of other sources of supply has forced Europe to turn to the American Continent for essential supplies on a much greater scale than before, and prices have increased heavily; the dislocation of industry by the war has tended to damage particularly industries and agriculture which contributed most to Europe's dollar income. The destruction in the Japanese war has turned the net income from sales of rubber, tin and other dollar-earning colonial products into a net expenditure. Finally, the shortage of dollars generally has made it hardly possible for Europe to earn dollars by sales to the rest of the world. The size of the deficit results from the cumulative effect of all these forces.

147. The full effect of this is only now becoming apparent. In the first post-war year, much of Europe was still disorganised and could neither get the supplies it needed nor would it have been in a position to make full use of them. Prices were still held down—a factor of great importance, for a change of only 10 per cent, in Europe's import prices from the American Continent is equivalent to nearly $1,000 millions a year. Many participating countries still had financial reserves, and there were generous credits from the United States and Canada. In order to get industrial and agricultural production under way, supplies are needed on a much larger scale than Europe had in 1946.

148. In order to illustrate the size of the deficit with the American Continent in another way, estimates were made by nine of the participating countries and the Bi-Zone of Germany of their 1948 current

deficit with the American Continent. These estimates were made by the countries themselves, on a number of specific assumptions, of which the most important were the maintenance of mid-1947 prices, the full availability of supplies, and imports limited only in accordance with what the country would be able to afford at the end of 1951. The results do not of course represent these countries' forecasts of what their deficits will be in the year 1948 on their present policies, for most of the participating countries are now forced by sheer necessity to work on quite different assumptions. The following are the figures:—

*Table 10—Deficit of Certain Participating Countries and Western Germany With the American Continent in 1948**

	($000 millions)
Belgium	0. 32
Denmark	0. 21
France	1. 76
Bi-Zone of Germany	1. 15
Germany, French Zone	0. 12
Greece	0. 51
Italy	0. 93
Netherlands	0. 63
Norway	0. 05
Sweden	0. 15
United Kingdom	2. 63

*It does not follow from this table that the relative shares of individual countries in the total deficit will be the same in subsequent years as they are estimated to be in 1948.

149. The total of these figures is $8,460 millions. When adjustment is made for the participating countries which were unable to supply this information, for the lack of availability of supplies and for the deficit of the dependent territories, this total is broadly consistent with the common account in Table 9. It must be emphasised that these figures do not represent the need of each country for special aid; the deficit with the American Continent is the largest element in the dollar problem of every country, but there are special circumstances in every case.

150. The consequence of the European recovery programme is to reduce the dollar deficit progressively from 1948 to the end of 1951. In order to illustrate the rate at which it could be reasonably expected that the deficit would fall—assuming those favourable conditions which are described in Appendix D, Annex B—a common account was prepared for the period 1948–51, which is shown in the Tables 11 and 12.

Table 11—Deficit With the American Continent of the Participating Countries (Including Their Dependent Territories) and Western Germany 1948–51

($000 millions)

	1948	1949	1950	1951	Total
U. S. A.	5. 64	4. 27	3. 28	2. 62	15. 81
Rest of American Continent	1. 94	1. 82	1. 30	0. 91	5. 97
	7. 58	6. 09	4. 58	3. 53	21. 78
Deficit of Dependent Territories	0. 46	0. 26	0. 07	*0. 13	0. 66
Total	8. 04	6. 35	4. 65	3. 40	22. 44

*Surplus.

151. The estimated imports, as explained in paragraph 132, include equipment, as well as commodities (food, coal, oil, etc.). Agricultural machinery and mining machinery rapidly increase the output of food and coal and may be regarded as current rather than capital items. If equipment (other than agricultural and mining machinery) were financed by loans from the International Bank, or other credit operations, the deficit remaining to be dealt with would be as follows:—

Table 12

($000 millions)

	1948	1949	1950	1951	Total
Deficit shown in Table 11	8. 04	6. 35	4. 65	3. 40	22. 44
Less equipment assumed to be financed by International Bank, etc	. 92	. 89	. 72	. 60	3. 13
Total	7. 12	5. 46	3. 93	2. 80	19. 31

152. It is clearly desirable that the largest possible contribution for covering the deficit should be made by means of loans by the International Bank, and the Bank's recent Report shows the important part which it should be able to play. Some of this deficit too, could be covered by private investment, or by the repatriation of capital after the restoration of internal financial stability. But it must be noted that private investment projects do not contribute to the problem in the terms in which it has been expressed above, if the proceeds are used for the purchase of imports of capital equipment which are not provided for in the present national estimates.

153. As against the tentatively estimated deficit with the American

Continent over the years 1948–51, there is a tentatively estimated surplus during those years with other non-participating countries to the amount of $2810 million. But, as stated in paragraph 145, it will not be possible to offset this surplus against the dollar deficit with the American Continent unless there is a sufficient flow of dollars to other non-participating countries.

154. The imports of equipment from the American Continent to which reference is made in paragraph 126 are analysed in the following table:—

Table 13—Participating Countries (excluding Dependent Territories) and Western Germany

Imports of Equipment From the American Continent

The following figures indicate the quantities involved, and no adjustment has been made to take account of changes of relative prices of imports and exports. The figures used are not the same as those used in computing the deficit for 1949–51.

(Millions of U.S. dollars at prices of 1st July, 1947)

	1948	1949	1950	1951	Total 1948–51
A. *Equipment to create new capacity or restore or replace damaged capacity*					
(i) *Goods covered by Technical Committees*					
Electrical Equipment	150	175	125	50	500
Petroleum Equipment	50	51	52	49	(a) 202
Steel Plants	100	100	100	100	400
Total	300	326	277	199	1102
(ii) *Goods not covered by Technical Committees*	287	287	287	287	(b) 1148
B. *Other Equipment*					
(i) *Goods covered by Technical Committees* (other than Agricultural and mining machinery)					
Petroleum equipment	118	96	64	75	353
Inland Transport Equipment	203	177	81	29	490
Timber equipment	10	9	7	6	32
Total	918	895	716	596	3125
Agricultural Machinery	370	313	268	237	1188
Mining Machinery	80	54	46	40	220
(ii) *Goods not covered by Technical Committees* (c)	n. a.	n. a.	n. a.	n. a.	n. a.
TOTAL EQUIPMENT (d)	1368	1262	1030	873	4533

(a) One or two major projects involving equipment from United States sources have been omitted from these figures as it has been found difficult to provide accurate estimates.

(b) Some Governments were unable to estimate how this total of 1148 is spread over the four years. It is assumed that it is spread evenly.

(c) Most Governments were unable to estimate the value of Equipment falling under Heading B above, to be imported from the American Continent, owing to the uncertainty of the markets from which such equipment will in fact be obtained.

(d) Total for which estimates are available.

155. The progressive annual reduction of the deficit reflects the fall in the participating countries' need for certain types of imports from the American Continent, partly as a result of increased production in Europe and partly because of the availability of more supplies from the rest of the world. Of equal importance, however, is the growth of exports to the American Continent which is the only means, in the long run, by which the participating countries can maintain their imports from the American Continent. The following table shows the export development which is provided for in the analysis:—

Table 14—Exports to the American Continent 1948–51

($000 million)

	U. S. A.	Rest of American Continent
1948	0. 85	1. 31
1949	1. 11	1. 72
1950	1. 23	2. 14
1951	1. 48	2. 46

156. At the end of the period, again on favourable assumptions, it is estimated that the participating countries and Western Germany will have a substantial surplus on current account with other non-participating countries. For the year 1951 this is estimated at $1,800 millions. If there is a sufficient flow of dollars to the rest of the world to enable the participating countries to earn dollars or their equivalent for this surplus, it will be possible to offset this surplus against the dollar deficit with the American Continent. This would indeed represent a restoration of the normal means by which Europe dealt with

its dollar deficit. But it implies that all other countries in the world must be able to earn enough dollars for this purpose. Given such conditions, the participating countries and Western Germany would be close to a balance by the end of 1951 and such deficit which continued to exist would be of dimensions which would be manageable without special aid.

157. The facts revealed by the Committee's analysis, however, show that the problem of Europe's deficit with the American Continent is one which cannot be solved in less than four years, and which cannot ultimately be solved until the basic maladjustment which causes it has been righted. This maladjustment, of which the dollar shortage is the symptom, is a potential danger to the stability of the post-war world. It is not only a problem of Europe and the American Continent; it is a problem of the balance of the whole world economy.

158. The European recovery programme can go part of the way to provide a solution. The expansion of production in the participating countries and in Western Germany on the scale envisaged in Chapter III will make possible a reduction in imports from the American Continent of goods which these countries can produce efficiently and have normally produced in the past. The development of production in dependent territories will have the same effect. The modernisation of European industry will increase these countries' ability to produce goods on an efficient and competitive basis and thus be able to achieve a rapid expansion of exports to the American Continent.

159. But the action which the participating countries can take is limited. The power to correct the maladjustment is not theirs alone. The maladjustment can never be corrected on a basis of expanding trade unless market conditions in the American Continent permit Europe to sell goods there in steadily increasing quantities and permit other countries to earn dollars there and use them to purchase from Europe. The participating countries will undoubtedly be able to stand on their own feet if all currencies in the rest of the world are convertible, and if the trade pattern is such that they can remain convertible. The solution of the world problem is decisive for the participating countries' future. In the initial period of the European recovery programme, the contribution to this world problem which Europe can make by its own exertions is of prime importance. But as the four-year period develops, the world considerations rather than those of European production itself will be decisive.

CHAPTER VIII

CONCLUSIONS

160. In this report the participating countries have set out their line of approach to the problem that confronts them. The discussions in Paris have resulted in the formulation in common of a European recovery programme. The task is so great that it cannot be brought to completion in less than four years. It will go forward in a series of stages the achievement of each of which will bring Europe nearer the goal.

161. The participating countries are determined to overcome their difficulties as far as they can by their own exertions, and the realisation of the four-year programme will restore the pre-war level of agricultural production in the participating countries as a whole and will exceed it in coal, steel and manufacturing industry generally. The scale of this effort will not only solve the immediate production problem but will also provide the basis for a further raising of European production in the following years to levels never before contemplated in Europe. This is the foundation for a sound and workable European economy which can once again play its full part within the wider framework of world trade.

162. The creation of internal financial stability in certain countries is a necessary condition for the accomplishment of their production programmes and for their full co-operation with other participating countries. In certain cases undertakings have been given by the governments concerned of their resolve to carry out as part of the European recovery programme, a programme of stabilisation whose success will, to a large extent, depend on supplementary external resources.

163. The expansion of production will involve continuously increasing measures of mutual help between the participating countries, which will increase their ability to cover their own requirements. The maximum use will be made of the participating countries' own raw material resources and productive capacity. This process will be stimulated by the measures which will be taken to secure progressive relaxation of import restrictions and to improve the payments ar-

rangements between the participating countries. Tariff barriers are less important at present, but many of the participating countries are now engaged upon negotiations for multilateral tariff reductions and arrangements have been made for examining the possibility of creating Customs Unions between some or all of the participating countries. In addition to this general co-operation, there are a number of specific pieces of mutual help which have been organised at Paris, particularly in the common planning of the use of natural resources.

164. Arrangements have been made for continuing this work of mutual help and consultation begun in Paris, both through the United Nations machinery and in other ways. A joint organisation charged with the task of reviewing progress made in the execution of the programme is also contemplated.

165. Even after taking full account of the supplies which they can produce for themselves and which they can hope to obtain from the rest of the world, the participating countries will require large quantities of food, fuel, raw materials and some capital equipment from the American Continent.

166. Adequate aid in 1948 is of decisive importance, for the programme cannot get fully under way without these supplies. The combined deficit with the American Continent in 1948 is $8,000 millions. This is not stated in the report as a request for special aid to that extent, for some of the deficit may be covered by loans from the International Bank, private investment, or other means. The figure of $8,000 million is attributable more to lack of supplies available from Eastern Europe, South-East Asia and other non-European sources than to an increase in the total import requirements of the participating countries.

167. A continuing flow of goods and services will be required from the American Continent in the further period 1949–51, but the dollar deficit will steadily diminish. The total dollar deficit over the four-year period 1948–51 is estimated at $22,400 million, a part of which can be met from the International Bank and sources other than special assistance. These estimates imply no extravagant importing; food consumption at the end of the period will be less than the pre-war level per head and the estimates are framed on the basis that in many countries restrictions on consumption of food, clothing and gasoline (for non-essential purposes) will continue to be necessary.

168. In the past year, 1951, the estimates show a deficit with the American Continent of $3,500 million. Given favourable world conditions which will enable the participating countries to earn dollars by their sales to non-American countries, this figure would imply that

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the participating countries would be near balance by the end of 1951. Certainly the deficit after the end of 1951, on these assumptions, should be of dimensions which will be manageable without special aid.

169. The Committee's analysis of the payments problem between the participating countries and the American Continent shows that the task of achieving and maintaining a balance is a formidable one, which the participating countries cannot solve by their own efforts alone. They can and will make their full contribution to its accomplishment. By modernising and increasing their production, by stabilising their internal economy, and by helping each other, they can reduce, over a period of time, the amount of supplies which they need to buy from the American Continent, and at the same time they can produce more goods for export. But no balance can be reached at a high level of trade unless the market conditions allow these goods to be sold.

170. The problem which the Committee of Co-operation has been working to solve in Paris is the aftermath of the war. The Committee now submits its proposal for the necessary restorative action on the European side by production, stabilisation and co-operation between the participating countries, as well as by measures to stimulate the free flow of goods and services. These proposals are reinforced by definite and specific undertakings by each of the countries concerned. But these undertakings can be successfully carried out only with the assurance of a continued flow of goods from the American Continent; if that flow should cease the results would be calamitous. Europe's dollar resources are running low. One country after another is already being forced by lack of dollars to cut down vital imports of food and raw materials from the American continent. If nothing is done a catastrophe will develop as stocks become exhausted. If too little is done, and if it is done too late, it will be impossible to provide the momentum needed to get the programme under way. Life in Europe will become increasingly unstable and uncertain; industries will grind to a gradual halt for lack of materials and fuel, and the food supply of Europe will diminish and begin to disappear.

171. In these circumstances the participating nations have welcomed the opportunity to prepare and present to the United States a statement of their plans and requirements. Through meetings between representatives of the United States and of the participating nations, the details of that statement can be filled in and the means of recovery more precisely defined.

172. In the last analysis the external means of recovery can in largest measure only come from the United States, which has by its assistance in the last two years already rescued Europe from collapse

and chaos. Unfortunately the size of the problem has proved greater than was expected; the disruption caused by the war was more far-reaching and the obstacles to recovery more formidable than was realised even six months ago. This report contains, it is believed, a realistic appreciation of the situation. In it the participating countries have set out the facts as they see them and on the basis of those facts have formulated a recovery programme. Their programme is based upon the fullest use of their existing productive capacity. In drawing it up they have sought to reduce their needs from the American continent to the minimum consistent with its achievement. The American people, through their Government and their Congress, will consider this programme to determine whether the means can be found of supplying those needs. On their decision will depend whether Europe can achieve economic stability and thereby be enabled to make her full contribution to the welfare of the world.

APPENDIX A

DOCUMENTS RELATING TO THE ORIGINS AND ORGANISATION OF THE COMMITTEE OF CO-OPERATION

I. Origins

The main extract of the speech made by Mr. Marshall at Harvard on 5th. June has been reproduced in paragraph 16 of Chapter I of the Report.

II. Organisation

The plan of organisation for the Committee of Co-operation which was adopted by the European Economic Co-operation Conference of sixteen nations at its second meeting on 13th. July, 1947 is set out below. For the sake of completeness, the names of the countries composing the various Technical Committees have been inserted, although a decision on this was in fact taken subsequently. The names of the delegates on the Committee of Co-operation itself, and the countries represented on other Committees constituted afterwards, have also been added. The following is the text of the document:—

Plan of Organisation

"The Conference of European Economic Co-operation emphasizes the great importance of the problem of speeding up the economic reconstruction and development of European countries suffering from the effects of the war. The Conference considers that this task would be facilitated by some form of economic assistance from the United States, similar to that proposed by Mr. Marshall in his speech on 5th. June, 1947.

The Conference considers that Europe should first help itself by developing its production of essentials. The support of the United States would be of decisive importance in enabling Europe to undertake this development and in supplying resources which will be lacking until the development of European production has

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been achieved. This would be the best way of assuring the economic recovery of the European countries and of safeguarding their independence.

In order to obtain as soon as possible the information required for drawing up a programme of availabilities and requirements, a special temporary organisation shall be set up. All European states wishing to take part will collaborate in the work of this organisation, with the temporary exception of Spain. The organisation will not intervene in the internal affairs of those states. No action will be taken by the organisation which could be regarded as implying a violation of their sovereignty. There shall be no restriction of desirable development of European trade.

Under these conditions the Conference considers it appropriate to take the following action:—

1. The establishment of a Committee of Co-operation with the task of preparing a Report showing the availabilities and requirements of Europe having in view a period of four years. This Report shall be presented to the Government of the United States before the 1st. September, 1947.

2. This Report, prepared on the basis of information freely supplied by the various countries wishing to associate themselves with the action undertaken, shall define:—

(*a*) The extent to which production in certain essential industries could be developed as a result of the efforts of each European country individually, on the one hand, and of inter-European exchanges of available resources, on the other.

(*b*) The requirements, both in quantity and value, which could be met by outside economic help. These requirements shall include capital goods for an expansion of production and essential consumer goods (agricultural produce, coal, etc.) to maintain the economic life of Europe during the period in which the production of the individual countries is inadequate.

3. The Committee of Co-operation shall consist of representatives of each of the member states of the Conference and of all other European states which declare themselves willing to participate in the work undertaken.

4. Information regarding the availabilities and requirements of Germany will be requested from the Commanders-in-Chief, members of the Control Council. Any recommendation relating to the development of German production must conform with the decisions of the Council of Foreign Ministers and of the Control Authorities.

5. The Committee of Co-operation will seek, as suggested by the Secretary of State of the United States, the friendly aid of the United States in the drafting of the Report.

6. The Executive Committee composed of France, Italy, the Netherlands, Norway and the United Kingdom will assist the Committee of Co-operation in its daily task.

7. Four Technical Committees shall be set up to facilitate the task of the Committee of Co-operation :—

(*i*) Food and Agriculture
(*ii*) Fuel and Power
(*iii*) Iron and Steel
(*iv*) Transport

Consideration of Balance of Payments problems shall be undertaken by the Committee of Co-operation.

The Technical Committees shall be composed as follows :—

Food and Agriculture

Denmark
France
Greece
Iceland
Ireland
Italy
Netherlands
United Kingdom

Fuel and Power

Austria
Belgium
Denmark
France
Greece
Italy
Luxemburg
Netherlands
Sweden
Switzerland
United Kingdom

Iron and Steel

France
Italy
Luxemburg
Norway
Turkey
United Kingdom

Transport

(a) *Internal*

Belgium
France
Portugal
Switzerland
Turkey
United Kingdom

Transport

(b) *Maritime*

Belgium
France
Greece
Italy
Netherlands
Norway
Portugal
Switzerland
Turkey
United Kingdom

The Committee of Co-operation and the Technical Committees may set up sub-committees for the study of special questions.

8. In the accomplishment of its task this organisation shall maintain close liaison with the United Nations, the specialised agencies and with existing inter-governmental economic organi-

sations, in order to avoid duplication and make the best possible use of the studies undertaken by these organisations.

9. If found to be necessary in the course of its work, the Committee of Co-operation shall have authority to modify the present organisation as may be required.

Rules

i Chairman and Rapporteurs

The Committee of Co-operation and its Executive Committee shall be under the chairmanship of the Chairman of the Conference or his Deputy. The Committee of Co-operation shall appoint a Rapporteur General and the Rapporteurs of the Technical Committees. The Technical Committees and Sub-Committees shall appoint their own Chairmen.

ii Official Working Languages

English and French shall be the official and working languages of the Conference.

iii Rapporteur General

The Rapporteur General shall co-ordinate the reports of the Technical Committees and collate the information required for the drafting of the final Report, which he shall submit to the Committee of Co-operation. He shall receive his directives from the Committee of Co-operation, keep it informed of the progress of work and request from the Committee any necessary new directives.

The Rapporteur General shall have a staff consisting of experts drawn from the various countries.

iv Secretariat General

The Secretary General shall be appointed by the Conference. The Secretary General shall set up an international secretariat, composed of representatives of the various countries.

v Voting

The Chairmen and Rapporteurs shall be elected by a simple majority vote. The final Report shall be signed by the Delegations which approve its terms.

Delegations with minority opinions have the right to demand their inclusion in the Report.

vi Minutes of the Meetings

The meetings of the Conference, of the Committee of Co-operation, of the Technical Committees and Sub-Committees shall be recorded in summary minutes drafted by the Secretary General. Statements made with the request that they be recorded in the minutes shall be incorporated in the minutes or annexed thereto.

vii Publicity for Meetings

The meetings of the Conference are public. Communications recording the meetings of the Committee of Co-operation and the Technical Committees shall be made to the Press from time to time by the Secretariat General."

III. Composition of Committee of Co-operation

Chairman: Sir Oliver Franks (United Kingdom)

Austria	M. Alois Vollgruber
Belgium	His Excellency le Baron Guillaume
Denmark	M. J. A. V. Vestbirk
France	M. Hervé Alphand
Greece	M. A. Verdelis
Iceland	M. D. Olafsson
Ireland	Mr. F. H. Boland
Italy	M. Pietro Campilli
Luxemburg	M. Antoine Funck
Netherlands	M. H. M. Hirschfeld
Norway	M. O. Colbjoernsen
Portugal	M. R. T. Guerra
Sweden	M. D. Hammarskjold
Switzerland	M. Carl J. Burckhardt
Turkey	His Excellency M. Numan Menemencioglu
United Kingdom	Sir Oliver Franks

Rapporteur General:	M. Alphand (France)
Assistant Rapporteurs General:	Signor Tremelloni (Italy)
	M. Hammarskjold (Sweden)
Secretary General:	M. Bouchinet-Serreulles

Central Group of the Rapporteur General

France
Italy
Netherlands
Sweden
United Kingdom

IV. Technical Committees set up by the Committee of Co-operation

Timber Committee

Austria
France
Greece
Italy
Netherlands
Sweden
United Kingdom

Financial Experts Committee

Austria
Belgium
Denmark
France
Greece
Iceland
Ireland
Italy
Luxemburg
Netherlands
Norway
Portugal
Sweden
Switzerland
Turkey
United Kingdom

Balance of Payments Committee

Belgium
Denmark
France
Italy
Luxemburg
Netherlands
United Kingdom

Manpower Committee

Belgium
France
Italy
Switzerland
United Kingdom

Working Party on Trade and Customs Unions

Austria
Belgium
France
Greece
Ireland
Italy
Luxemburg
Netherlands
Norway
Portugal
Switzerland
United Kingdom

APPENDIX B

PROBLEMS RELATING TO GERMANY

Note Agreed by Those Participating Countries Which Were at War With Germany

1. For the purpose of drawing up a European balance sheet of resources and requirements, it is indispensable to take account of Germany, since that economy has been, in the past, and by the nature of things will remain, closely tied up with the economic system of other European countries. The incorporation of the Western Zones of Germany into the plans elaborated by the Conference, while essential for practical economic reasons, inevitably created considerable difficulty, because a number of fundamental policy decisions with regard to the German economy, which lie beyond the scope and competence of this Conference, have not yet been taken; and because future economic policy in Germany, being in charge of the Quadripartite Control Council, is not within the power of any of the participating countries. The Western Zones are also in a special position because of the obligation resting upon Germany to furnish reparations and to assist the recovery of the countries victimised by her during the war. Considerations of security demand also that both the rate and the nature of her economic recovery should be carefully controlled.

2. The German economy must not be allowed to develop to the detriment of other European countries, as it has done in the past. But, if European co-operation is to be effective, the German economy must be fitted into the European economy so that it may contribute to a general improvement in the standard of living. In particular, the output of the Ruhr coalfield, which is essential to the European economy as a whole, must not again be used by Germany in such a way as to constitute a threat to European security, but must contribute to the rehabilitation and economic stability of the whole of Europe, including Germany herself. An increased production and export of Ruhr coal is in fact essential for European recovery, and both coal and coke should be fairly distributed between those countries, including Germany, which depend on the Ruhr for their supplies. The

machinery, raw materials, food and other supplies which are required to increase Ruhr coal production deserve high priority in any programme of imports either into Germany, or into Europe as a whole.

3. Other Western European countries cannot be prosperous as long as the economy of the Western Zone is paralysed, and a substantial increase of output there will be required if Europe is to become independent of outside support. In planning this increased output, account should be taken of the essential goods which Europe needs from Western Germany for her reconstruction. For this purpose, Western Germany, like the participating countries, will require help, particularly as the requirements of security will make necessary important changes in the structure of her economy. It must also be realised that these changes will involve complementary changes elsewhere. An excessive concentration of the production and export from Western Germany of consumer goods traditionally supplied from other countries might create in those countries almost insoluble problems of adjustment, and this factor must be borne in mind when working out the rehabilitation of Germany along peaceful lines consistent with considerations of security.

4. Like some of the participating countries, the Bi-Zone of Germany faces an extremely difficult balance of payments problem, and the deficit in the balance of payments is at present being borne by the United Kingdom and the United States. The population of the Bi-Zone in 1951 will be from 8 to 10 millions larger than pre-war, and although no imports will be needed as in pre-war for rearmament purposes, this area will have to increase its international trade above its pre-war volume, even if it is to meet only its minimum food and raw material requirements. It will only be able to achieve a balance of payments by the end of 1951 on the basis of an export programme greater than pre-war, and of an import programme which, although also greater than pre-war, will have to be on the basis of austerity. The repercussions which this may have during the intervening period on the economy of those countries for whose produce she has in the past been an important, and geographically a natural, market should be taken into consideration when working out the programme of Western German imports, and every effort should be made to make use of the normal peacetime methods and channels of trade. It is essential that the participating countries and Western Germany should both be able to pay their way after 1951: if either achieves viability only at the expense of the other, the European economy will still be unsound. Any arrangements relating either to the structure of Western German industry and agriculture, or to Western Germany's export, import

and transport policy, should, therefore, be fitted into the framework of European co-operation, with particular regard to their impact upon Germany's neighbours who will be specially affected by those arrangements and upon other countries in a similar position.

5. From a longer term point of view, the future of the German tariff and of German commercial policy is a matter of great concern. It is understood that the German tariff is inoperative and due for revision. It is essential that the new German tariff should be so constructed as to preclude the possibility of the development of German war potential, and to encourage the growth of international trade in contrast with the autarchic aims pursued by Germany before the war. The level of the German tariff should be reasonable in relation to those of the countries with whom Germany will be trading, and as soon as she is in a position to do so Germany should be required to adhere to the International Trade Organisation Charter and to conform to the principles of other international economic organisations.

APPENDIX C

SUMMARIES OF TECHNICAL COMMITTEE REPORTS

The Reports of the Technical Committees are published separately. To facilitate study of the General Report, summaries are attached of the Reports prepared by the following Technical Committees:—

I. Food and Agriculture
II. Coal
III. Electricity
IV. Petroleum Products
V. Iron and Steel
VI. Timber
VII. Inland Transport
VIII. Maritime Transport.
IX. Labour

SECTION I—FOOD AND AGRICULTURE

A. Programme for Production of Food

1. The first essential is to restore Europe's agricultural output. As an immediate target for the end of the four year period, the participating countries and Western Germany have set themselves the aim of reaching at least the pre-war level of production. They plan, for example, increases of the order shown in Table 1.

Table 1—Food Programme: Indices of Production

Participating Countries (Excluding Dependent Oversea Territories) and Western Germany

(1934–38 taken as 100)

	1947–48	1950–51
Bread Grains (Wheat and Rye)	63	100
All Cereals	76	102
Milk	79	101
Sugar	100	115
Meat	67	90

Only in meat, where the production cycle is much longer, the target for 1950–51 will still leave production significantly below pre-war. Nevertheless, there is a substantial increase over the present levels.

There are substantial variations between the various countries, and it must not be assumed that the restoration of the pre-war level is more than a general measure of the production effort. Each country is aiming at the most efficient and economic production pattern in the circumstances now obtaining.

2. Table 2 summarises this production programme for the basic foods in the participating countries and Western Germany.

Table 2—Production of Basic Foods

Participating Countries (Excluding Dependent Oversea Territories) and Western Germany

(Millions of metric tons)

	1934–38	1946–47	1947–48	1950–51
Bread grains (wheat and rye)	34. 0	28. 3	21. 4	34. 0
Fats and Oils [a] (oil equivalent)	2. 8	2. 0	2. 2	2. 9
Sugar	3. 4	3. 3	3. 4	3. 9
Meats	9. 0	5. 9	6. 0	8. 1
Milk	72. 5	55. 7	57. 0	73. 4

[a] Includes butter.

Thus production of the main crops in 1950–51 will be up to or in excess of the pre-war level. Livestock herds will be rebuilt and expanded and by 1950–51 cattle and poultry population in the participating countries and in Western Germany taken together will be greater than pre-war by 7% and 13% respectively, though pig numbers will still be 10% less. In Western Germany cattle will be about 13% and pigs and poultry 30% or 40% below pre-war figures.

3. The participating countries also contemplate a possible increase in the fish catch from 3.7 million tons in 1934–38 and 3.5 million tons in 1946–47 up to a figure of 4.7 million tons in 1950–51.

4. There are also major development schemes in certain dependent overseas territories, particularly designed to increase the supplies of vegetable fats and oils. For example, the scheme in British East Africa should result in an output of decorticated groundnuts estimated at 80,000 tons in 1949, 255,000 in 1950 and nearly 400,000 in 1951. The new plantation schemes in French Equatorial and West Africa have as their target an output in 1951 of 100,000 tons of decorticated groundnuts.

B. The Means of Production

Tractors, Machinery, Fertilisers, Feeding-Stuffs

5. The production programme requires substantial quantities of tractors, other agricultural machinery, fertilisers and feeding-stuffs. The supply of all these means of production was greatly diminished during the war and the immediate post-war years, and there is a large replacement demand to be met.

Agricultural machinery and tractors have not been kept in adequate repair. The soil in many countries has been starved of fertilisers, and fertility must be restored by substantial applications. To restore livestock production, which is a necessary feature of intensive European agriculture, increased quantities of feeding-stuffs will be needed to enable livestock populations to approach their pre-war level and give the best yields.

In addition to making up a backlog, the general production effort is of such magnitude that the targets cannot be reached without increased mechanization and improved yields, involving greatly increased supplies of fertilisers and agricultural machinery.

The greater part of these demands can be met by increased domestic production in Europe; the main exceptions are set out in the following paragraphs.

Tractors.

6. The domestic output of tractors has already greatly increased since 1939 and a further rapid expansion is expected. Production is mainly concentrated in the United Kingdom and consists mostly of medium and light tractors. The estimated requirement and production figures are:—

Table 3—Agricultural Tractors: Requirements and Production

Participating Countries (Including Dependent Oversea Territories) and Western Germany

(Thousands)

	1947–48	1948–49	1949–50	1950–51	Total
Requirements	205	224	205	204	838
Exports to nonparticipating countries	7	94	159	186	446
Production	182	305	352	380	1219
Net import requirements of heavy tractors	16	13	12	10	51
Net import requirements of light and medium tractors	14	------	------	------	14

There is a deficit in heavy tractors amounting to 50,000 over the four-year period, and a small deficit in light and medium tractors in the first year.

Machinery

7. The production of other agricultural machinery in the participating countries and Western Germany is expected to rise from 922,000 tons in 1947–48 to nearly 1½ million tons in 1950–51. Total production over the four years amounts to 4.9 million tons, of which France accounts for 2.1 million, the United Kingdom 1.2 million, Western Germany 0.8 million, Italy 0.2 million.

Fertilisers

8. A great increase is planned in the output of fertilisers. Nitrogen production, which was 960,000 tons in 1946–47, is to be increased to over 2 million tons in 1950–51. Production of manufactured phosphatic fertilisers (in terms of P_2O_5) is to be raised from 1.4 million tons in 1946–47 to 2.6 million tons in 1950–51. The production of potash (in terms of K_2O) which was 847,000 tons in 1946–47 is to be raised to 1.6 million tons in 1950–51.

There remains nevertheless a big gap between supplies and total requirements of nitrogen and potash because the requirements are increasing rapidly. This gap can only be filled by imports from outside the area. It is not thought that as far as potash is concerned there will be any serious supply difficulty.

In the case of nitrogen, at any rate in the first three years of the period under review, there remains an import requirement which can only be met by supplies from the American continent. In 1947–48 this requirement is of the order of 20% of the total requirement, but it diminishes to a small figure by 1949–50, as illustrated by Table 4.

Table 4—Fertilisers: Import Requirements [a]

Participating Countries (Including Dependent Oversea Territories) and Western Germany

(Thousands of metric tons)

	1934–38 Average	1946–47	1947–48	1948–49	1949–50	1950–51
Nitrogen, in terms of N	— [b]	110	290	229	81	— [c]
Phosphates in terms of P_2O_5. [d]	73	112	270	221	237	188
Potash, in terms of K_2O	202	230	495	607	626	658

[a] Excluding the surplus from Dependent Oversea Territories.
[b] Surplus of 12,000 tons.
[c] Surplus of 107,000 tons.
[d] Phosphate requirements can be met by phosphate rock from French North Africa.

Feeding-Stuffs

9. Production of coarse grains is to be increased from 27.3 million tons in 1946–47 to 31.8 million tons in 1950–51 as compared with 30.5 million before the war. Oilseed production is also to be increased; this increase needs to be supplemented by additional imports of oilseed and, if so supplemented, will result in a big rise in the output of oilcakes for animal feed in the participating countries.

There remains a deficit in feeding-stuffs, which can only be met by imports from outside. The figures are given in Table 5.

Table 5—Import Requirements of Feeding-stuffs [a]

Participating Countries (Including Dependent Oversea Territories) and Western Germany

(Millions of metric tons)

	1934–38 Average	1946–47	1947–48	1948–49	1949–50	1950–51
Coarse grains [b]	11.4	4.7	8.6	9.9	11.1	11.7
Oil cakes [c]	5.0	1.9	3.5	4.4	4.9	5.4

[a] After taking into account the surpluses from dependent oversea territories.

[b] While total imports of all grain remain roughly constant during the four-year period, the bread grain component falls as domestic production of wheat and rye increases. But, given the aim of increasing livestock population, the coarse grain requirement must rise progressively over the four-year period.

[c] These figures include the oilcake content of imported oilseed. The progressive rise is due to the rise in the livestock population.

Although substantially larger quantities are programmed for the four years under review than the quantities imported in 1946–47, the import level by 1950–51 will be only slightly higher than the pre-war average.

Available Supplies

10. It is not possible to estimate accurately how far supplies will be available on the world market for export to the participating countries and Western Germany. The answer depends to a large extent upon the effort which the supplying countries are willing (as well as able) to make to help Europe in these circumstances.

Tractor imports should present no difficulty over the period, though the main emphasis rests on the 1948 figures which are important for the whole four-year programme. There is, however, a margin of doubt regarding other agricultural machinery and nitrogen. The first year is vital and the productive capacity exists in the supplying countries. The biggest problem is the deficiency of oilcakes, amounting to about 1½ million tons in each of the four years.

C. Food—Import Requirements (Consumption Per Head)

11. The level of food consumption in 1950–51 for the participating countries and Western Germany, as it emerges from the programmes submitted by them, represents a considerable increase over the present level. The supplies available per head of population in 1950–51 will be less than pre-war in the case of all the basic food-stuffs, (with the exception of potatoes) as is illustrated in Table 6.

Table 6—Main Foods Consumption per Head and Total Needs Participating Countries (Exclusive of Dependent Oversea Territories) and Western Germany

	1934/38		1946/47		1947/48		1950/51	
	Total needs (Million t)	Consumption per head (kg per an.)	Total needs (million t)	Consumption per head (kg per an.)	Total needs (million t)	Consumption per head (kg per an.)	Total needs (million t)	Consumption per head (kg per an.)
Bread	47. 9	192	42. 2	158	43. 2	159	49. 7	179
Fats (oil equivalent)	6. 0	24. 1	3. 6	13. 3	4. 6	17. 0	6. 3	22. 6
Sugar	6. 8	27. 4	5. 5	20. 8	5. 4	20	7. 1	25. 2
Meat	10. 7	42. 9	7. 5	27. 7	8. 1	30	10. 5	37. 6
Potatoes	58. 8	236	50. 7	190	61. 6	228	68. 2	243

There are two points to bear in mind: firstly, that there will be a substantial increase in population by 1951; secondly, that in the meantime a big and sustained effort will be required in order to carry the four-year production programme through to successful completion, in spite of all obstacles or setbacks.

Western Germany

12. The position in Western Germany calls for special comment in view of her importance as a producer of coal. The present low level of consumption cannot during the four-year period be raised to the pre-war level, but it will have to be raised above present levels to enable the population to play its part in the production programme.

Domestic production at present provides less than 40% of food requirements, and is calculated to cover 55% in 1950–51. Western Germany, which before the surrender in 1945 was largely fed from Eastern Germany, will continue to be a big importer of foodstuffs.

One of the dominating factors in the whole European food problem is the growth of the population in Western Germany due to the large numbers of people displaced. The increase of population in 1951 over the 1934–38 level is estimated at 21%, as compared with 11% for the participating countries and Western Germany as a whole.

Imports of Basic Foods

13. Even the attainment of this modest level of consumption, because of the rise in population, involves in nearly all cases larger total supplies being available than before the war. It is clear that, great as is the production effort planned in the field of agriculture by the participating countries and Western Germany, a substantial import need for foodstuffs remains, quite apart from the import need for means of production. These food import requirements from non-participating countries are summarised in Table 7 for the main commodities.

Table 7—Import Requirements of Basic Foods [a]

Participating Countries (Including Dependent Oversea Territories) and Western Germany

(Millions of metric tons)

	1934/38 Average	1946/47	1947/48	1948/49	1949/50	1950/51
Bread Grains	13. 9	15. 3	23. 8	19. 6	18. 7	17. 9
Fats (Oil equivalent)	2. 7	1. 1	1. 7	1. 9	2. 2	2. 3
Sugar	2. 7	1. 7	1. 7	2. 2	2. 3	2. 3
Meat (and Bacon)	1. 7	1. 6	2. 1	2. 3	2. 4	2. 5

[a] After taking into account the surpluses from dependent oversea territories.

Other Food Imports

14. As regards other foodstuffs such as cheese, processed milk and eggs, the dependence on the American continent will be reduced at a faster rate. These are the products which Europe has produced and can produce in substantial quantities, provided that the necessary means of production, particularly feeding-stuffs, are made available. It is the plan of the participating countries, as a complement to their

production effort to increase the interchange of these commodities among themselves very substantially, and so to diminish their call upon the resources of the outside world, particularly the American continent.

Available Supplies of Food

15. It is not possible to forecast accurately what supplies will be available for import. The Food and Agriculture Committee believes, however, that with the exception of the items mentioned below, there is no reason to doubt that, physically, the total import requirements from outside the participating countries can be supplied.

A margin of doubt remains for meat, rice, and cereals. It is thought that over the period as a whole there may be a gap between the supplies of meat available and the import requirements; the gap would greatly increase during the period and might reach 500,000 tons in 1951.

The total import requirement of cereals, including bread grains and cereal feeding stuffs, is roughly 30 million tons for each of the four years. For the first year, for which available supplies can be assessed with some degree of accuracy, a supply of 20 million tons has been estimated. For the remaining four years an annual availability of 25 million tons has been assumed. It must be emphasised that this figure could be exceeded if the overseas supplying countries decided to make an exceptional effort to assist in the recovery of European agriculture.

For balance of payments purposes (see in Appendix D), the lower figures mentioned above have been used. The participating countries believe, however, that, while there may be some doubt about the availability of the total needed supplies and consequently some possibility that the feasibility of the agricultural production programmes might be impaired, this doubt is not sufficiently strong to invalidate the generally realistic assumptions on which these production programmes are based.

D. Import Requirements and Sources

16. The production programme outlined above involves import requirements, both as regards foods for consumption and as regards the means of production, of the magnitude indicated in Table 8.

Table 8—Import Requirements and Sources

Participation Countries (Including Dependent Oversea Territories) and Western Germany

(Billions of U. S. Dollars)

	1947/48	1948/49	1949/50	1950/51	Total
Food and Feeding Stuffs	6. 7	7. 9	8. 2	8. 5	31. 3
Fertilizer	. 14	. 13	. 1	. 08	. 45
Tractors and Machinery	. 36	. 27	. 2	. 12	. 95
TOTAL	7. 2	8. 3	8. 5	8. 7	32. 7
Imports available from Dependent Oversea Territories	1. 4	1. 5	1. 6	1. 7	6. 2
Imports to be obtained from Non-Participating Countries	5. 8	6. 8	6. 9	7. 0	26. 5
Sources of Supply					
United States	2. 1	2. 0	1. 8	1. 7	7. 6
Other Americas	1. 9	2. 3	2. 3	2. 3	8. 8
The Rest of the World	1. 8	2. 5	2. 8	3. 0	10. 1
TOTAL	5. 8	6. 8	6. 9	7. 0	26. 5

SECTION II—COAL

17. The United Kingdom, Western Germany, France, Belgium and the Netherlands are the only substantial producers of coal. The first two of them were big exporters before the war, and their exports together with Polish exports were sufficient to cover European requirements and exports overseas.

That situation was basically changed by the war. In the United Kingdom trained miners were released to the armed forces in 1940 and long term development projects had to be shelved. In France, Belgium and the Netherlands war damage, lack of skilled labour, shortage of food and other factors resulting from the German occupation have seriously affected output. In Western Germany the war inflicted enormous damage on the Ruhr area. Meanwhile present reconstruction programmes have already led to an immediate increase in demands for coal.

A. Production and Requirements of Coal

18. It is therefore not surprising that the combined 1947 coal output, as shown in Table 9, is unlikely to exceed 80% of the 1938 figure. The production programme provides for an increase of 33% i. e. from 439 million tons in 1947 to 584 million tons in 1951, in order to raise the 1951 output to a figure 6% over the 1938 figure:

Table 9—Coal and Lignite Production

Participating Countries, Their Dependent Oversea Territories, and Western Germany

Net Pithead Production

(Millions of metric tons: ton for ton)

	1938	1947	1948	1951
United Kingdom	231	199	214	249
Western Germany:				
Bi-Zone	206	133	149	193
Saar	14	10	14	17
France	48	50	51	63
Belgium	30	24	26	31
Other Countries	23	23	24	31
Total Production	552	439	478	584

The more serious aspects of European coal problems should have disappeared in four or five years. As indicated in paragraph 21 below, the participating countries should by 1951 be in a position, with the aid of imports from Poland, but without further substantial American imports, to meet the higher coal requirements which will result from a general expansion of activity.

In the United Kingdom the expansion planned by the National Coal Board is based on an increase in trained manpower, intensive exploitation by modern mechanised methods, and capital developments including some 20 new pits, new washing plant and underground locomotive haulage. Every effort is being made to resume exports to other participating countries as soon as possible after April 1948, rising from an

estimated six million tons in 1948 to 29 million tons in 1951. These figures are exclusive of bunker shipments for world shipping.

In the Bi-Zone the programme provides for an increase of hard coal and lignite production of 60 million tons in 1951 as compared with 1947. But owing to devastation and general disturbance of the German economy the hard coal production would still not have recovered in 1951 to the peak level of 1938. Estimated exports for 1948 and 1949 are 17.5 million and 21 million tons respectively.[1] Saar production has already shown an appreciable measure of recovery and by 1948 should have reverted to the pre-war level. Saar coal exports are expected to reach three million and four million tons in 1948 and 1949 respectively.

19. The consumption requirements of the participating countries and Western Germany are due to expand substantially, the 1951 figure being some 65 million tons in excess of the 1938 figure, an increase of around 12%. Such an increase is readily understandable when account is taken of the following factors:—

(*a*) A general increase in the level of economic and industrial activity in all countries is bound to result from the effort, which they are all making to achieve rehabilitation together with full employment in the period.

(*b*) The general level of domestic consumption will continue to be forcibly depressed over the period, and in 1951 will still not exceed the pre-war level.

Full allowance has been made for:—

(i) economies in the use of coal for all major purposes, by the promotion of full efficiency in industry and modernisation of plant;

(ii) the increased use of alternatives—principally imported fuel oil and expanded electric power resources e.g. from hydraulic stations.

20. Despite all these measures it is anticipated that, when allowance has been made for the relatively minor tonnages to be exported to non-participating countries, there will still remain a gap—though a steadily diminishing one—between production and requirements, as set out in Table 10.

[1] Exports from the Western Zones of Germany for 1950 and 1951 have not yet been fixed since the tripartite agreement between the British, French and United States Governments of March, 1947, on the development of German exports, is not applicable to the production figures indicated as targets for 1950 and 1951.

Table 10—Solid Fuel

Production, Consumption and Import Requirements of Participating Countries and Dependent Oversea Territories and Western Germany

(Millions of metric tons)

	1948	1949	1950	1951
Production (excluding Dependent Oversea Territories)	477	512	552	583
Requirements (including Bunkers, Exports to Non-Participating Countries and Deficits of Dependent Oversea Territories)	535	562	594	620
Import Requirements (subject to reduction by Polish exports)	58	50	42	37

Coal Imports

21. On the basis of figures supplied by the E. C. O. the probable scale of Polish coal exports to the West in each of the next four years may be 16, 24, 27 and 30 million tons respectively. Adding one million tons from other sources, the final deficit to be met by imports from the United States should be reduced from 41 million tons in 1948 to 25 million in 1949, 14 million in 1950 and six million in 1951, after which it may be expected to disappear.

Imports of American coal, though temporarily vital, are uneconomic for the participating countries and their discontinuance will mark an important stage in European stabilisation.

Imports from the United States to Europe reached an annual rate of over 40 million tons by the middle of 1947. It thus appears that the continuance of United States coal exports to the participating countries on the diminishing scale indicated above is well within the bounds of possibility. Some reservation must, however, be made with regard to certain types and qualities, particularly coking coal, the implications of which are discussed below in Section V, paragraph 47.

B. Means of Production (Coal Mining Equipment and Supplies)

22. The main essentials for achieving the production programme are mining supplies and equipment, an adequate labour force, better housing conditions and food supplies as an encouragement to workers in the industry and prospective recruits.

Total requirements of coal mining equipment of all categories including underground machinery, locomotives, transport equipment, electric generators and washing plant are valued at $3,563 millions for the whole period spread almost evenly over the four years as follows:—

Table 11—Coal Mining Equipment Requirements of Participating Countries and Western Germany

(Millions of U.S. dollars.)

	Western Germany	United Kingdom	France	Italy	Belgium	Other Countries	Total
Coal Mining Equipment	1, 414	1, 042	656	50	142	259	3, 563

These requirements of coal mining equipment are related to the production programmes of each country. A large part of this equipment, estimated at $3,078 million worth, can be produced directly by those countries which require it. There remains an import requirement estimated at $607 million. This import requirement can be met to the extent of some $387 million by other participating countries, subject to certain conditions such as full utilisation of capacity in the United Kingdom and Switzerland.

Thus there remains an import requirement over the four years of special material not manufactured in Europe, representing 6% of total needs and valued at $220 million.

It is important that this import requirement of equipment should be met. Coal is vital to the whole range of production programmes.

23. *Timber.* In this review of requirements of mining supplies, no account has been taken of mining timber, which is a serious problem but which is dealt with in Section VI below under the heading "Timber".

24. *Labour.* The manpower and labour situation is materially different from that of 1938, owing to lack of training of recent recruits and the presence of numerous prisoners of war whose departure is imminent. Participating countries and Western Germany are endeavouring to secure an adequate and stable labour force for the mines by offering special inducements in pay and housing conditions. Total needs of these countries in foreign labour have been estimated at 60,000 underground workers up to the end of 1948. For Western Germany overall additional manpower needs are estimated at 180,000, part of which will normally be covered by the return of prisoners of war from other countries but there remains still a big labour problem in view of the vital importance to Europe of raising coal output.

Training schemes can be accelerated, and, if the intake of recruits to the industry is increased, the problem can be solved. But the solution depends in the first place on an assurance of better food without delay and the prospect of better housing conditions at an early date.

C. *Import Requirements and Sources*

25. The following is a recapitulation of the probable import requirements of coal mining equipment and supplies (other than timber) and of solid fuel from the United States and the rest of the world, necessary to enable the European production programme to be implemented.

Table 12—Import Requirements of Participating Countries (Including Dependent Oversea Territories) and Western Germany

(Millions of U.S. dollars)

	1948	1949	1950	1951	Total	Source	
						U.S.A.	The Rest of the World [c]
Coal [a]							
U.S.A.	369	225	126	54	774	774	------
The Rest of the World	255	375	420	465	1, 515	------	1, 515
Coal Mining Equipment [b]	80	54	46	40	220	220	------
TOTAL	704	654	592	559	2, 509	994	1, 515

[a] The coal import values are based on the present f.o.b. price of $9 per ton from the United States and $15 per ton from the rest of the world, based on the present Polish f.o.b. export price.

[b] For import requirements of mining timber see Section VI Timber.

[c] The expression "The Rest of the World" means the rest of the world other than the participating countries, their dependent oversea territories, Western Germany and the United States.

All these calculations of import requirements naturally depend on the fulfilment of the coal production programme. If the countries of Europe fail in this respect, the results will be, first to imperil the production programmes in other fields; secondly an increased demand for coal from the United States; and thirdly an increase in the dollar deficit. It should however be noted that the estimate given above of demands on the United States for coal in 1951 represents only 1% of the total consumption requirement of solid fuel by the participating countries and Western Germany.

SECTION III—ELECTRICITY

26. During the war the installation of new producing plant (power stations) was practically stopped in favour of more urgent war needs, while the installation of consuming plant (motors, furnaces, etc.) continued in essential war industries. Thus in 1938–1947 energy requirements increased by 37% and productive capacity by only 13%. Allowing for the fact that there existed in 1938 spare capacity, which has now been fully brought into use, there exists a present power deficit of some 17%. Since 3–7 years are needed to install new power stations, this deficit can only be eliminated slowly. It will, of course, retard the development of other industries.

A. Production Programme

27. To meet the present electricity shortage a great development programme has been undertaken. In all cases high priority has been given to the manufacture of the necessary plant. Table 13 shows the total generating capacity which is expected to be available each year and also indicates the annual increase corresponding to the development programme.

Table 13—Electricity Generating Capacity in Participating Countries and Western Germany

(Millions of Kilowatts)

	1938	1948	1949	1950	1951
Generating Capacity	39. 0	48. 7	54. 2	59. 6	65. 5
Increase over Previous Year	1. 5	4. 7	5. 5	5. 4	5. 9

This projected rate of growth will thus be between three and four times the 1938 rate of 1.5 million kilowatts; and the total growth in 1948–1951 will be about 22 million kilowatts.

28. A development of the output of hydro-electric power makes it possible to economise in substantial quantities of coal. The programme is therefore planned to make the greatest possible use of hydro-electric power. Where possible, thermal plants to be erected are being designed to use lignite or other low quality fuels. Finally, in cases where ordinary coal has to be used, the thermal plant is being designed so as to reduce coal consumption to a minimum.

29. Total production of electricity in the participating countries and Western Germany is calculated to reach the figures shown in Table 14.

Table 14—Output of Electricity in Participating Countries and Western Germany

(Billions of Kilowatt-hours)

1938	1947	1948	1949	1950	1951
130	170	189	206	222	237

Of the total increase in 1947–1951 of 67 billion kilowatt-hours, hydro-electric power accounts for 30 billion kilowatt-hours representing the equivalent of about 20 million tons of coal.

30. Requirements are estimated to rise from 178 billion kilowatt-hours in 1947 to 243 billion kilowatt-hours for 1951. Over three-quarters of this energy will be used in industry and commerce. Economy measures are being actively pursued by rationing, staggering of working hours, national economy campaigns and other methods. But despite the big primary development programme, and despite all economies, there remains a continuing deficit of electricity which, (except in so far as it can be covered by the supplementary generating plant extension programme referred to below) will be of the order shown in Table 15.

Table 15—Electric Power and Energy Percentage Deficits in Participating Countries and Western Germany

	1947	1948	1949	1950	1951
Maximum Power (kw)	17%	15%	14%	11%	8%
Annual Energy (kwh)	5%	4%	4%	3%	2%

31. To meet the continuing deficit in the minimum time and in the most economical manner (with particular regard to savings in hard coal consumption), the participating countries and Western Germany have together studied the further development of European hydro-electric, brown coal and geo-thermic resources. As a result, a special supplementary generating plant extension programme has been worked out, which for convenience can be referred to as "the International Programme". This programme comprises 9 main installations, of which 5 would be located in Italy (4 hydro-electric and one geo-thermic), one served by the Rhine on the Franco-German frontier, one situated in Austria but served by water from Switzerland and Italy, and two in Western Germany (brown coal). The combined installed capacity would be 2.3 million kilowatts and average annual output 6.6 billion kilowatt-hours. Most of this capacity could be completed within four years.

The installations have by unanimous agreement been selected on a purely economic basis and without regard to national frontiers. Thus, some of the stations will supply electricity mainly to countries other than those in which they are situated. The International Programme therefore involves the cooperative development of national resources by the participating countries and Western Germany. It will, however, stand or fall by the extent to which substantial outside assistance in the form of materials and finished equipment is forthcoming.

B. Means of Production (Equipment)

32. The main national development programmes are estimated to cost $5,000 millions. Nearly the whole of this can be met from European resources. In the participating countries and Western Germany, production capacity for electricity supply equipment is being increased. It is expected that by 1949–50 the capacity will once more become approximately equal to requirements, as was the case before the war. Until that date certain manufactured plant will be needed and there will be a continuing need for selected raw materials and items of specialised equipment. The estimated value of the manufactured plant and specialised equipment is $300 millions or 6% of the total development cost.

33. The International Programme is estimated to cost $315 millions. The resources of the participating countries and Western Germany are fully engaged on the main national programmes and can probably only cover this supplementary international programme to the extent of about $115 millions. Raw materials and complete machinery equivalent in value to about $200 millions would thus be required to be imported to enable the International Programme to be achieved.

C. Import Requirements: Sources

34. The main national generating plant extension programmes and the supplemental International Programme give rise to requirements which exceed the domestic resources of the participating countries and Western Germany. The value of equipment and material which might be required from the United States is shown in Table 16.

Table 16—Electric Generating Equipment: Import Requirements of Participating Countries and Western Germany

(Millions of U.S. dollars)

	1948	1949	1950	1951	Total
Main National Programmes	125	100	50	25	300
Supplementary International Programme	25	75	75	25	200
Total	150	175	125	50	500

SECTION IV—PETROLEUM PRODUCTS

35. Natural petroleum resources within the territories of the participating countries are small and it is unlikely that indigenous production can be quickly or substantially increased. But consumption of petroleum products can be expected to rise at a rapid rate, corresponding to the increase in general industrial activity, large-scale substitution of fuel oil for coal and the increasing mechanisation of agriculture. In view of these factors and taking into account the diversion of Rumanian oil, import requirements from overseas will rise rapidly.

A. Production Programme

36. During the period 1948–1951 it is the intention of the participating countries to:—

(a) continue efforts to increase production both at home and in dependent oversea territories;

(b) develop oil production in overseas concessions outside the dependent territories;

(c) develop refining capacity at home with a view to economising in dollar currency, providing raw materials for the increasingly important chemicals from oil industries, and working up at the main centres of consumption the increasing oil output of the Middle East, for which sufficient refining capacity is not at present available.

37. The oil production of the participating countries and Western Germany (excluding dependent oversea territories) amounted to approximately 2.2 million tons in 1938 and is unlikely to exceed 2.5 million tons in 1951.

38. Table 17 indicates the needs of the participating countries (excluding their dependent oversea territories) and Western Germany over the four-year period and the sources (but not origins) of the supplies from which they will be met.

Table 17—Petroleum Products—Requirements

Participating Countries and Western Germany

(Millions of metric tons)

	1938	1947	1948	1949	1950	1951
Indigenous Production	2. 2	1. 8	2. 5	2. 6	2. 5	2. 5
Production from Imported Crude [a]	11. 5	10. 2	13. 2	16. 2	21. 1	28. 2
Available Supplies of Refined Products	13. 7	12. 0	15. 7	18. 8	23. 6	30. 7
Requirements of Refined Products	33. 3	43. 1	53. 0	59. 1	64. 6	68. 7
Import Requirements of Refined Products	19. 6	31. 1	37. 3	40. 3	41. 0	38. 0
Import Requirements of Dependent Oversea Territories	2. 9	4. 4	6. 6	7. 5	8. 1	8. 1

[a] The crude oil imports from which the figures in this line are derived, are 1938 13.0, 1947 11.3, 1948 14.1, 1949 18.1, 1950 23.9, 1951 31.4.

The total increase of requirements in 1951 as compared with 1947 is 25.6 million tons, an increase of 59 percent, made up as regards principal products as follows:—

Motor gasoline	3. 4 million tons	33 per cent
Kerosene	0. 5 " "	14 " "
Gas/diesel oil	2. 9 " "	32 " "
Fuel oil	16. 8 " "	106 " "

39. It will be seen that the estimated increase in motor gasoline needs is relatively moderate. The figures are based on the assumption that many of the participating countries will continue to restrict supplies of motor gasoline for non-essential purposes. The additional supplies are required mainly to meet the growing demands of road transport services and agriculture. By far the greatest increase will be in fuel oil required both for industrial and shipping purposes. Any shortage of this product as compared with the estimates will automatically either reduce economic activity or lead to increased requirements of coal (one million tons of oil is equivalent on the average to about 1.6 million tons of coal).

On the basis of the above figures the consumption of oil *per capita* within the participating countries and Western Germany is estimated to rise from 0.16 metric tons (1.2 barrels) per annum in 1947, to 0.25 metric tons (1.8 barrels) per anum in 1951 as compared with 1.69 metric tons (12.5 barrels) per annum in the United States in 1946.

Table 17 also brings out the impact of the new refinery construction programme as, over the period (1951 as compared with 1947), imports by participating countries (excluding dependent overseas territories) will in the case of crude oil increase by 179 per cent; in the case of refined products they will increase by only 22 per cent.

The world market for petroleum and its products is at present very tight. The United States, who are outstandingly the largest producers and consumers of oil, from being large exporters to Europe and elsewhere have become net importers. It will therefore not be easy to cover the rising needs of the participating countries and Western Germany. The strenuous efforts which are being made by American and non-American producers to increase production in overseas areas should, however, yield substantial results within a relatively short time—particularly if the requisite equipment can be made available. It has, therefore, been considered reasonable to assume that the oil programme will be met.

B. Means of Production (Equipment)

40. Much equipment will be needed both for the refinery construction programme at home and overseas and to develop the oil producing centres, on which Europe and the rest of the world rely for a considerable proportion of their requirements. A major effort has been and is being made to develop the production of oil equipment by the participating countries themselves.

Over the period 1948–51, it is estimated that, out of total requirements to the value of $1,848 millions for the participating countries, their dependent oversea territories and Western Germany, no less than $1,260 millions in value or 68% can be provided by the participating countries.

C. Import Requirements

41. The consumption requirements of petroleum products and the equipment programme—principally for the development of the oil producing areas and the building of refineries both at home and abroad—involve the following imports from non-dollar and dollar sources, the latter including dollar oil from areas outside North America.

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Table 18—Estimated Value of Total Imports of Petroleum Products and Equipment

Participating Countries and Western Germany (Excluding Dependent Oversea Territories)

(Millions of U.S. dollars

	1948	1949	1950	1951	Total 1948–1951	
	Total	Total	Total	Total	Dollar Supplies	Non-Dollar Supplies
Crude Oils	191	245	308	415	584	575
Refined Products	861	912	935	848	1, 603	1, 953
Equipment	449	452	442	472	555	1, 260
TOTAL	1, 501	1, 609	1, 685	1, 735	2, 742	3, 788

The basic assumption which has been made in preparing the split between dollar and non-dollar oil is that the proportions of the two will remain relatively constant over the period and in line with the present position.

SECTION V—IRON AND STEEL

A. Production Programme

42. The immediate objective for the iron and steel industries is full use of existing capacity, but much of this capacity needs modernisation and, in certain directions, expansion. This work is now being started and will be carried on during 1948–51; much of it will not be completed in this period.

The full employment of existing capacity will depend on supplies of raw materials and semi-finished products coming forward in considerably larger quantities than they are doing in 1947. The pre-war sources of supply of some of these materials have disappeared or have been much diminished, but, unless the supply of these materials is resumed, steel capacity will not be fully utilised.

43. The production programme of the sixteen participating countries and Western Germany in 1947–51 compared with pre-war years is shown in Table 19.

Table 19—Production of Steel

Participating Countries and Western Germany

(Millions of metric tons—ingot)

	1938	Best Year[a]	1947	1948	1951
Crude Steel					
Participating Countries	24. 7	34. 0	26. 8	36. 6	42. 7
W. Germany:					
Bi-Zone	17. 8	17. 9	2. 7	4. 1	10. 0 [b]
Saar & French Zone	3. 0	3. 0	0. 8	1. 6	2. 7
TOTAL	45. 5	54. 9	30. 3	42. 3	55. 4
Finished Steel					
Participating Countries	18. 4	25. 2	21. 0	29. 6	34. 2
W. Germany:					
Bi-Zone	13. 4	13. 4	2. 1	3. 1	7. 5 [b]
Saar & French Zone	2. 3	2. 3	0. 6	1. 3	2. 2 [b]
	34. 1	40. 9	23. 7	34. 0	43. 9

[a] A selected pre-war year of greatest activity has been taken for each country. The total of these figures gives a measure of the output of which the plant of the countries taken together was capable.

[b] These figures are put forward by the Control Authorities in the Bi-Zone as targets which could be achieved provided that certain assumptions are fulfilled. Under the March 1946 Level of Industry Plan steel production in the Bi-Zone would be limited to 4.7 million ingot tons. Production, however, might be raised to 10 million tons by the end of 1951, in conformity with the level permitted in the Bi-Zonal Level of Industry Plan announced by the Commanders-in-Chief on August 29th., 1947. It could certainly, with proper effort on the part of the industry, be raised to seven or eight million tons by that date. Any calculations based on the 10 million ton figure must take account of the statement that the measures about to be taken by the Commanders-in-Chief do not prejudge Quadripartite decisions of the Council of Foreign Ministers in respect of the level of industry for Germany as a whole or such industrial limitations as may be imposed by the peace settlement.

44. From these figures it will be seen that:—

(*a*) the total production of crude steel by the participating countries in 1947, despite raw material shortages, will be 8% above 1938, although 21% below the aggregate of the best pre-war years. The programme for crude steel in 1951 is nearly 60% higher than in 1947, and nearly 25% higher than the aggregate of the best pre-war years; the increase in production of finished steel is slightly greater than that of crude steel;

(*b*) If the 1947 figures for Western Germany are included, the combined production of crude steel in 1947 will be at a rate 33% below 1938 and 44% below the aggregate of the best pre-war years. If the figures for possible production from Western Germany for 1951 are included, then the total production programmes for crude steel in

1951 are about the same as the aggregate output of the best pre-war years.

An important feature of the development plans is the emphasis laid on the achievement of better balanced industries, with the object of increasing fuel and labour efficiency.

B. Means of Production (Coke, Iron Ore, Scrap, Manganese)

45. The increase of production in the course of 1948-51 in the sixteen participating countries, namely 16% for crude steel and 16% for finished steel, is due chiefly to new capacity. In addition new plants will be coming into operation in replacement of works which are to be shut down as soon as their output can be spared, and a great deal of modernisation and re-equipment will be carried out.

46. The production figures in Table 19 are based on the assumption that full supplies of the necessary raw materials and semi-finished products will be available. But in fact it appears that there may be deficits in supplies of some of these materials, the most serious potential deficit being in respect of coke.

47. *Coke.* A first examination of the coke position suggested that, against requirements estimated at 65.6 million tons in 1948, only 53.0 million tons would be available. This deficit of 12.6 million tons was due mainly to the lack of exports of coking coal from the United Kingdom and the decline in exports of coking coal and coke from Western Germany. It was considered that an attempt should be made to bridge this gap by (1) diverting coke from non-metallurgical uses, (2) reducing coke consumption by the use of richer iron ores in blast furnaces and (3) securing a larger proportion of coking coal in exports from the United States, United Kingdom and Poland.

These measures are possible but demand a high degree of co-operation and effort, particularly in the Bi-Zone, together with such assistance as the United States can provide by increasing the proportion of coking coal in the total coal exports sent to Europe. Similar measures will have to be taken in subsequent years to ensure that the supplies of coke vital for European steel production are available in sufficient quantities.

The assessment of the potential coke deficit arose out of the work of the Committee and, if the agreed recommendations for overcoming this deficit are successfully applied, this achievement in co-operation will be of the highest importance in removing a serious obstacle to European production.

48. *Iron Ore.* World supplies of rich iron ore will be adequate up to 1950 but in 1951 will fall short of demand. The demand for richer

ores has increased with the shortage of fuel, since its use in blast furnaces saves coke; and at the same time some established sources of supply, for example, in North America, are becoming exhausted.

There are important sources of supply within the sixteen participating countries, which provide supplies not only for these countries but also for the outside world. There will be some development of the mines in French North Africa in 1948–51, but major exploitation of new sources is not practicable within this period. The gap in 1951 must therefore be closed by use of leaner ores, but this solution can only be effective if coke is in adequate supply in 1951.

49. *Scrap.* It is not easy to evaluate the future scrap supply. The fuel and scrap supply positions react upon each other, and an easement in fuel supplies might bring an unforeseen easement in scrap. At the best, however, a deficit of 1 to 1½ million tons of scrap a year must be expected; such a deficit can only be met, as it was before the war, from United States sources.

50. *Manganese Ore.* The participating countries and Western Germany are dependent for the greater part of their manganese ore supplies on outside sources. Demand, in particular from the United States, is heavy. Moreover, some pre-war sources of supply are not at present available to Western Europe.

51. In sum the shortages of raw materials, other than coke, might mean a loss of crude steel production in the next year or two of 1¾/2 million tons a year rising to three million tons in 1951. A loss of this order would represent a shortfall of production of about 5%. This loss would be almost wholly additional to any loss caused by lack of coke. If therefore the deficit in coke supplies cannot be reduced below (say) four million tons, finished steel production in 1948 might fall by about 6½ million tons, or 15% below the target.

52. The amounts of raw material requirements from non-participating countries are shown in Table 20.

Table 20—Iron Ore, Scrap and Manganese Ore Import Requirements of Participating Countries and Western Germany From Non-Participating Countries

(Millions of metric tons)

	1948	1949	1950	1951
Rich Iron Ore	2.5	2.5	3.4	5.7[a]
Scrap	1.5	1.9	2.2	2.3
Manganese Ore	0.6	0.8	0.8	0.9

[a] It is estimated that in 1951 only 3.4 million tons of rich iron ore will be available from non-participating countries, so that there would be a deficit of 2.3 million tons.

53. *Crude and semi-finished Steel.* If the raw material programme is fulfilled, the production programme for crude steel (see Table 19) can be carried out. But this programme itself will be insufficient to keep fully employed the steel finishing capacity of the participating countries, particularly the United Kingdom and Italy.

Table 21—Crude and Semi-Finished Steel Requirements and Deficit of Participating Countries and Dependent Oversea Territories but Excluding Western Germany

(Millions of metric tons, steel ingot or ingot equivalent)

	1948	1949	1950	1951
Consumption Requirements [a]	39. 4	40. 7	43. 2	45. 5
Supplies Available	36. 6	37. 9	40. 3	42. 7
Import Requirements from Non-Participating Countries	2. 8	2. 8	2. 9	2. 8

[a] Including very small exports to non-participating countries.

54. *Finished Steel.* The finished steel consumption requirements of the 16 participating countries rise from 26.8 million tons in 1948 to 29.7 million tons in 1951. But even this figure will be equivalent to 167 kg. per head of population or only about *one-third* the present annual consumption per head in the United States. The rise is due partly to the effects of the war years, including deferred repairs and maintenance, and partly to the demands of the reconstruction programme and full employment. A similar upswing of demand for steel is general throughout the world.

55. The participating countries must plan for steel supplies to cover not only their domestic consumption needs, but also exports to outside markets. Western Europe is traditionally a big exporter of finished steel. These exports not only represent an essential contribution to the foreign exchange resources of the participating countries, but they are also closely linked with other aspects of Western Europe's trade and enterprise abroad—for example material for railways constructed to European specifications, and the structural steel for projects carried out by European engineers.

56. The balance sheet of the requirements and production of finished steel of the participating countries is given in Table 22. It is necessary to deal separately with the import requirements of tinplate and sheets since, unlike other types of finished steel, capacity for these will be insufficient throughout 1948/51 although it will be adequate thereafter.

Table 22—Finished Steel (Except Tinplate and Sheet)

Requirements and Production of Participating Countries, Including Dependent Oversea Territories, but Excluding Western Germany

(Millions of metric tons)

	1948	1949	1950	1951
Total Requirements for Home and Foreign Markets [a]	25. 4	25. 7	26. 8	27. 7
Production	25. 7	26. 1	27. 6	28. 8
Deficit (−) or Surplus (+)	+0. 3	+0. 4	+0. 8	+1. 1

[a] Including 3–4 million tons a year exports to overseas markets.

There will in any event be additional import requirements for tin plate and sheets, 0.7 million tons in 1948, 0.5 in 1949, 0.3 in both 1950 and 1951. It may be possible to use capacity in the Bi-Zone to meet these requirements of sheets, particularly in 1950 and 1951. Western Germany requires finished steel imports of 0.9 million tons in 1948 and 0.5 in 1949. The approximate result would be that about 0.6 million tons of imports of finished steel (other than tin plate and sheets) will be needed in 1948 but virtually none thereafter. The surpluses of finished steel shown in 1950 and 1951 do not exceed the margin of uncertainty necessarily attached to estimates for this period ahead.

57. If the shortfalls in production resulting from raw materials shortages were as high as 15 per cent, consumption programmes would need serious readjustment, and some important reconstruction needs could not be met. But in the vital fields of transport, mining and agriculture, which are dealt with by the Technical Committees, the amount of steel needed is not more than perhaps 25 per cent of total steel consumption, and should therefore be capable of being covered.

58. Finally there is the question of the capital plant and equipment needed for the whole iron and steel modernisation and equipment programme. Most of this will be provided from within the participating countries. But there are certain vital items such as continuous wide strip mills which it will be necessary to seek to import from the United States.

C. Import Requirements and Sources

59. The production programme (equipment and raw materials) and consumption requirements involve imports of raw materials (exclusive of coke) and crude and semi-finished and finished products from other parts of the world, as shown in Table 23.

Table 23—Import Requirements of Participating Countries (including Dependent Oversea Territories) and Western Germany

(Millions of U.S. dollars)

	1948	1949	1950	1951	Total	U.S.A.	Other Americas	Rest of the World *
Rich Iron Ore	15	15	20	21	71	--------	39	32
Manganese Ore	10	12	13	15	50	--------	--------	50
Ferro-manganese	7	9	10	11	37	33	4	--------
Scrap	55	68	80	85	288	272	--------	16
Pig Iron	7	3	0	0	10	10	--------	--------
Crude Steel and Semis	157	160	170	165	652	540	84	28
Tinplate and Sheet	107	74	48	40	269	269	--------	--------
Other Finished Steel	55	6	0	0	61	41	--------	20
Equipment	100	100	100	100	400	400	--------	--------
Total	513	447	441	437	1,838	1,565	127	146

* The expression "Rest of the World" means the rest of the world other than the participating countries (including dependent oversea territories) and Western Germany and the American continent.

SECTION VI—TIMBER

A. Requirements and Production

60. Unlike steel, timber is produced from living matter and, as the forest resources of the participating countries are limited, their timber production must be governed by the rules of good husbandry. Before the war, fellings approximated to forest growth. But, although most of their forests were depleted by the necessities of war and enemy occupation, the participating countries have already increased their production above pre-war levels. Timber production in the participating countries for 1951 will cover about 60% of softwood, 70% of hardwood (both including ties), and 80% of pitprops, pulpwood and poles requirements. The drain on resources makes it impossible to continue this increased production for long without jeopardising the existence of the European forests.

61. The majority of the participating countries have accepted the resolution of the Marianske Lazne Conference in favour of a 10% increase in production for 1948 & 1949, or of an equivalent economy where exhaustion of resources make increased production impossible. The occupation authorities in Western Germany have adopted a policy of exporting softwood, whereas, before the war, Germany was the second largest importing country in Europe. It is important that the present high rate of cutting in the forests of Western Germany should be maintained in the general interests of Europe; Germany's forests were carefully husbanded during the war at the ex-

pense of forests in occupied countries. The continuance of felling in Western Germany of twice the average annual growth would reduce the future output of German forests by less than one per cent for each year of overcutting, while procuring for Europe (including Western Germany) almost 13 million extra cubic metres of roundwood of all types, fuel wood apart.

62. Since 1945, at a time when their need for timber was greatest, the participating countries have received virtually no timber from some of their former sources of supply; with the sole exception of pitprops they have had to restrict themselves to less than one half of their pre-war consumption. For example: before the war the U. S. S. R. and the Baltic States supplied Western European requirements to the extent of 25% of sawn soft wood, 40% of plywood and 30% of pitprops; the Balkan countries were also large suppliers, but supplies are no longer forthcoming on a pre-war scale; other softwood producers such as Austria and Finland are in 1947 far below their pre-war export levels, while Sweden is now exporting only 450,000 standards of soft wood instead of her pre-war 800,000.

Table 24 shows production requirements, import requirements and deficits of timber by broad categories.

Table 24—Timber Needs, Production, Import Requirements and Deficit of Participating Countries (including Dependent Oversea Territories) and Western Germany

Category and Units	Year	Total Needs	Production	Probable Imports	Deficit	
					Quantity	% of needs
Softwood (including Ties) (Millions of Standards).	1934-8	7.6	4.7	2.9	----------	----------
	1948	7.7	4.8	1.8	1.1	15
	1951	8.1	4.8	2.2	1.1	14
Hardwood (excluding Ties) (Millions of cubic metres).	1934-8	9.3	6.9	2.4	----------	----------
	1948	9.5	7.7	1.8	----------	----------
	1951	10.8	8.0	2.8	----------	----------
Hardwood Ties (Millions of cubic metres).	1934-8	1.1	1.0	0.1	----------	----------
	1948	1.9	0.9	0.4	0.6	31
	1951	1.2	0.7	0.5	----------	----------
Pitprops, Pulpwood and Poles (Millions of cubic metres).	1934-8	40.2	32.1	8.1	----------	----------
	1948	37.8	31.7	4.3	1.8	5
	1951	40.9	32.8	6.1	2.0	5

63. Thus between 1948 and 1951 there is no deficit of hard woods in participating countries and the deficit of pitprops, pulpwood and poles is small. It is considered that the gap between pitprop requirements and supplies can be bridged by the use of steel props. The situation,

however, is much more serious for softwood and hardwood ties in 1948 to 1951. It seems certain that there will be a deficit of softwood even allowing of increased production and economy measures in the participating countries and Western Germany. The deficit of hardwood ties shown above for 1948 does not disappear until 1951, when it is estimated that requirements and supplies should be in balance.

B. *Means of Production (Equipment)*

64. Equipment is required, firstly to maintain production in the participating countries and Western Germany and secondly to increase hardwood production in dependent oversea territories. Less than one-third of the total import requirements of this equipment can be provided by the participating countries themselves. The main items of equipment required are:—

(i) *Logging Equipment, including transport.* Crawler tractors, wheeled tractors, trucks, road graders, locomotives, low-sided wagons, brake vans, caboose trucks, loading cranes, launches.

(ii) *Saw Mill Equipment.* Bandmills resaws, cross-cut saws, kiln equipment, cranes and gantries, boilers, turbo-generators, electric motors, fuel hogs.

(iii) *Veneer cutting and plywood manufacture.* Veneer lathes, slicers, ruling machinery, clippers and driers, knife grinders, presses, glue mixers and spreaders, boiler and electrical equipment.

C. *Import Requirements and Sources*

65. The requirement programme and consumption needs involve the following probable imports from other countries:—

Table 25—Timber Import Requirements of Participating Countries (including Dependent Oversea Territories) and Western Germany

(Millions of U.S. dollars)

	1948	1949	1950	1951	Total
a) *Import Requirements*					
Timber	520.0	580.0	625.0	665.0	2,390.0
Equipment	16.5	15.4	13.3	12.3	57.5
TOTAL	536.5	595.4	638.3	677.3	2,447.5
b) *Sources*					
U.S.A.	112.4	108.3	100.3	87.3	408.3
Other American Countries	171.1	172.1	146.0	133.0	622.2
Rest of the World	253.0	315.0	392.0	457.0	1,417.0
TOTAL	536.5	595.4	638.3	677.3	2,447.5

SECTION VII—INLAND TRANSPORT

66. Expansion of economic activity in Europe will imply in 1951 rail traffic of 854 million tons (against 917 in 1937) and in waterborne traffic of 174 million tons (against 150 in 1938).

67. Material requirements for the build-up of the Inland Transport systems will be of great magnitude, having regard to war damage, obsolescence and lack of maintenance. The participating countries and Western Germany, while making every use of old material, will have to place large new orders. But their own industries should be able to produce all that is necessary apart from those exceptions listed below.

68. Principal production requirements are set out in Tables 26 and 27.

(a) Rail Transport

Table 26—Rail Transport Requirements and Production Capacity of the Participating Countries [1] and Western Germany for 1948–1951

	Requirements	Production capacity	Surplus	Deficit
Locomotives	9, 378	11, 965	2, 587	----------
Freight Cars	724, 000	621, 000	----------	103, 000
Passenger Cars	24, 300	21, 700	----------	2, 600
Timber Sleepers (Millions of cubic metres)	12. 29	7. 17	----------	5. 12

[1] Not including Sweden except as regards timber sleepers (ties).

(b) Other Forms of Transport

In inland waterway transport the participating countries hope to meet their requirements by their own production. As regards port equipment, productive capacity shows an excess over requirements, provided adequate materials are available.

In road transport, the manufacture of road trucks in future years should be sufficient to meet requirements.

Deficits

69. *Freight Cars.* There is over the four years a deficit of 103,000 which to the extent of 89,000 falls into the years 1948 and 1949. The deficit is due to the heavy requirements of Western Germany.

70. *Passenger Cars.* It is proposed to reduce imports to the minimum necessary to meet pressing requirements of the countries most affected, namely to an amount of 1,300 passenger cars.

71. *Timber Sleepers (or Ties).* The deficit is 41% of total requirements. It can only be partially met by imports or substitutes (such as steel or concrete). There must therefore remain a deficit, but although operation will naturally be slower and less sure, the carrying out of the transport programme will not in the opinion of experts be seriously prejudiced.

72. *Import Requirements and Sources*

Achievement of the traffic target figures indicated above may involve the imports from the United States as the only possible exporter, shown in Table 27.

Table 27—Import Requirements of Participating Countries and Western Germany

(Millions of U. S. dollars)

	1948	1949	1950	1951	Total
Freight Cars	168	147	52	------	367
Passenger Cars	28	28	28	28	112
Special Equipment	7	2	1	1	11
	203	177	81	29	490

SECTION VIII—MARITIME TRANSPORT

73. The main characteristics of the shipping position of the participating countries are, on the one hand, immense losses of ships of all classes during the war and, on the other, the large volume of services of shipping which will be needed over the next few years to transport from overseas the quantities of cereals, coal and other commodities essential to their economic recovery.

74. The participating countries have exerted themselves to the utmost to make good their war losses of shipping. To meet urgent needs they have already, since the end of hostilities, purchased ships to the value of $500 millions from overseas and are proposing to purchase another three million tons of a value of about $300 millions. The availability of this additional tonnage is assumed in the following paragraphs. Concurrently with the purchase of this great volume of tonnage, which is largely of the bulk carrying type, particular efforts have been and are being made to replace by new construction in the shipyards of the participating countries (which in 1938 corresponded to 75% of the world total capacity) the specialised types of vessels lost during the war.

75. Table 28 indicates the development of the fleets of the participating countries:—

Table 28—Shipping Capacity of Participating Countries

(Million deadweight tons)

	1938	End 1947	End 1951
Dry Cargo Shipping	36. 1	32. 0	39. 2
Tankers	10. 1	11. 1	14. 4

It is estimated that the participating countries will in 1951 own a merchant fleet larger than in 1938, but account must be taken of the disappearance of the German fleet which, in 1938, comprised 5.9 million tons of dry cargo shipping and 0.4 million tons of tankers. With the addition of the German figures to the 1938 totals the 1951 tonnages of the participating countries will be slightly lower in the case of dry cargo tonnage and appreciably higher for tankers than the pre-war levels.

76. Shipping practice is based on free circulation in international trade of ships of all flags. A proportion of the fleets of the participating countries is, and must remain, available to render shipping services to other countries just as the ships of other countries render services to the participating countries and Western Germany. The practical elimination of the German and Japanese fleets increases the shipping services required by the rest of the world from the participating countries. Table 29 shows their total shipping requirements, taking into account their own needs (and the needs of Western Germany) and the services which they normally render to one another and to the rest of the world.

Table 29—Total Shipping Requirements of Participating Countries and Western Germany

(Million deadweight tons)

	1948	1949	1950	1951
Dry Cargo	50. 5	50. 0	49. 5	49. 5
Tankers	15. 1	16. 7	18. 4	19. 7

77. After allowing for the shipping services, which the participating countries will be able to provide for themselves and one another, there will remain a "deficit" representing the demands upon the services of other flag tonnage, principally the United States, for which

payment must be made in dollars. This requirement of dollar tonnage is estimated to amount to 10.3 million tons of dry cargo shipping in 1948 and to fall steadily over the four-year period to 2.2 million tons in 1951. It is abnormally high in earlier years owing to the temporary demand for certain bulk commodities over a long sea haul, e.g. coal from North American sources. By the end of the period the abnormal demand for tonnage on such account should have disappeared and the remaining requirement for dollar tonnage would substantially represent the shipping services to be rendered to participating countries and Western Germany by the United States and other flags in the normal course of shipping trade.

78. As regards tankers, the dollar tonnage requirements, which increase over the period from 1.1 million deadweight tons in 1948 to 2.8 million deadweight tons in 1951, appear to be less than the tonnage which the United States oil industry would ordinarily provide for its trade with the participating countries and Western Germany. The dollar cost of tanker freight is included in the overall cost for dollar tonnage comprised in the figures of Chapter VI, Table 5 of the General Report.

Dollar Tonnage Requirements

The estimated cost of dollar freight is shown in Table 30.

Table 30—Dollar Tonnage Requirements

(Millions of U.S. dollars)

	1948	1949	1950	1951	Total
Dry Cargo Freights	500	360	230	130	1, 220
Tanker Freights	70	100	135	180	485
TOTAL	570	460	365	310	1, 705

SECTION IX—MANPOWER

79. Careful examination has been made of the position of labour at present unemployed in Europe and the immediate labour requirements for the execution of the production programmes.

80. In assessing these requirements, account was taken of the increased productivity of labour, which will result from an intensified utilisation of fuel and power, from more ample supplies of raw materials and from modernisation of plant and equipment.

81. In these conditions it may be anticipated that in certain countries there will arise immediate extra labour requirements, which could only be covered by immigration. The total of such requirements might be in the neighbourhood of 680,000 workers, necessary for agriculture and industry.

82. Present labour resources are principally represented by about two million Italian unemployed workers and 500,000 displaced persons. These resources may be augmented over the next few years by the increase of population in certain countries, especially Italy.

83. Although the available excess labour resources are greater than the probable immigration requirements, the skilled labour at present available is much less than the requirements of skilled labourers. For example, there are no qualified miners available for recruitment by the participating countries, whose combined needs for qualified miners are estimated at 60,000.

84. The varieties of definition of "skilled worker" in the different countries make it difficult to reach detailed statistical conclusions; but it is clear that the various participating countries will have to put in hand big schemes of vocational training in order to provide the necessary qualified labour. There is full agreement on the necessity for accelerating to the maximum the transfer of available workers.

85. It appears that, if adequate measures are adopted both as regards transfers of workers and as regards vocational training, the production programme will not be hindered by labour shortages but will itself contribute to raising the level of employment. The importance of raising this level has been emphasised.

86. If, however, the production programme cannot be carried out, whether owing to lack of raw materials or to insufficiency of skilled labour or for any other reason, the level of employment will be gravely affected and in certain countries a serious degree of unemployment will result.

APPENDIX D

BALANCE OF PAYMENTS

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CHAPTER I

THE REASONS WHY THERE IS A DOLLAR PROBLEM

The Pre-War Position

1. The programme of European economic recovery depends on a great production effort by the participating countries; on drawing from overseas the necessary supplies; and on finding the means of paying for them. Other Reports set out the vital need for these overseas supplies; this Report deals with the problem of finding means of paying for them.

2. Before the war, the participating countries were able to pay for what they bought from the outside world from the current earnings of their exports, of their shipping and of their investments, and from other sources of "invisible" income such as emigrants' remittances and tourists. Small deficits in particular years—for example in 1938 (see Table 1)—were covered by ordinary commercial loans.

Table 1—Balance of Payments of the Participating Countries and Germany with all Non-Participating Countries

Year 1938

(Millions of U.S. dollars)

Payments		Receipts	
Imports f. o. b. . . .	6, 600	Exports f. o. b.	4, 600
		Investment income (net)	1, 200
		Other invisibles (net) (inc. shipping) .	300
			6, 100
		Deficit	500
	6, 600		6, 600

At the same time, although currency restrictions in parts of Europe even then constituted a serious impediment to the flow of trade and payments, it was possible to cover deficits in one part of the world by surpluses with other parts. Thus the participating countries as a group normally imported from the American continent more than twice as much as they exported—the deficit on visible trade between these two areas in 1938 being $1,450 millions. The difference was covered by earnings derived from export of goods and services to the rest of the world.

Reasons for the Present Position

8. The war has shattered this balance.

(i) Instead of earning enough from their shipping and investments to cover nearly a quarter of the cost of their imports, the participating countries are now obliged to make net payments on these accounts to the rest of the world. This results from the destruction or sale of assets in the war. Overseas investments have been sacrificed and overseas indebtedness has been incurred during the war or in order to obtain supplies after the war; ships have been sunk, and to many countries the loss of income from shipping services is very serious. Thus to regain equilibrium the participating countries have to make good the loss of $1,500 millions of income from shipping and investments;

(ii) In addition their exports must be intensified to meet the increased cost of imports relatively to exports. The cost of essential food and feeding-stuffs and of raw materials which have to be imported has risen sharply in relation to the prices of the manufactured goods which the participating countries export;

(iii) The very substantial reduction in the volume of supplies available from South-East Asia and from Eastern Europe (including Eastern Germany) forces the participating countries and Western Germany to rely very heavily, for the time being, on the American continent. Approximately one-quarter of the imports required from the American continent, in 1948, as shown below, replace supplies imported before the war from South-East Asia and Eastern Europe.

It is all the more difficult to fill the gap because

(i) as explained in paragraph 7, the extreme shortage of consumption goods has diminished the incentive to produce commodities and to bring them to markets particularly in the case of the agricultural populations and of the populations of oversea territories;

(ii) in countries where there is a distrust of the national currency, this distrust leads to hoarding and to privately-owned foreign exchange failing to contribute fully to the national balance of payments;

(iii) as a result of the war, import needs have increased and export capacity has diminished. Goods, such as coal, in which Europe is normally self-sufficient have temporarily to be imported from the United States.

The facts and estimates contained in this and other Reports show that the problem of the dollar deficit of the participating countries reflects the fundamental fact that production on the American continent increased greatly during the war, while production in Europe fell to a very low figure and can only gradually catch up with the increase of production in the American continent. The problem of this dollar deficit is inevitably a continuing problem until the increase of production in the American continent is paralleled by as great or a greater increase of production in the participating countries.

4. Such, in brief, are the main causes of the dollar problem of the participating countries. To solve the problem it is essential that their exports should earn dollars in order to pay for the imports which have to be met from dollar sources. Therefore, even if these countries succeed in completely balancing their accounts with the non-participating countries as a whole, they may be a long way from obtaining the dollars they need to cover essential imports. On the other hand, so long as they have a deficit with the non-participating countries as a whole, this deficit has to be met in currencies acceptable to the countries concerned, which primarily means payment in dollars.

CHAPTER II

THE MAGNITUDE OF THE PROBLEM

The Balance of Payments in 1948

5. The scale of the dollar problem in 1948 is illustrated in Table 2.

Table 2—Estimate of Balance of Payments of the Participating Countries, their Dependent Territories, and Western Germany in 1948

(Millions of U. S. dollars)

	With American Continent	With Other Non-Participating Countries
Net deficit on visible trade	−7, 006	−405
Net surplus (+), or deficit (−), on invisible account	−574	+384
Dependent territories net deficit	−455	−219
	−8, 035	−240

The figures on which this Table is based are shown in more detail in Annex E and Annex F (for Dependent Territories). It will be found that the import requirements stated in this Report are often different from those given in Appendix C of the General Report and

in the Reports of the Technical Committees. The reason is that in the present Report the import requirements for specific commodities refer only to the requirements of the participating countries and Western Germany; all the import requirements of dependent territories are implied in estimates of the net deficits of those territories. In the Reports of the Technical Committees, on the other hand, the import requirements of the dependent territories are, in many cases, included with the requirements of the participating countries.

Throughout this Report imports from non-participating countries exclude imports from dependent territories of the participating countries.

The Importance of 1948 in Connection With Internal Monetary Reform

6. The year 1948 is of crucial importance. The first and most pressing step in the programme of recovery is to accomplish radical financial and economic reforms in those countries where they are required. These reforms will restore confidence in national currencies. When this has been accomplished, privately owned foreign exchange will contribute to maintain the countries' balance of payments in equilibrium. At the present time, at any rate in certain countries, a part of these resources escapes exchange control.

7. To accomplish such reforms an adequate supply of consumption goods is needed. One reason for the deficit in the Balance of Payments of the participating countries (including their oversea territories) is that they have not yet achieved the great increase of production required. In turn, one reason for this is the fact that agricultural producers, who cannot procure with their earnings sufficient quantities of manufactured goods, no longer have sufficient incentive to deliver their products to town populations, and, for similar reasons, the populations of oversea territories no longer have sufficient inducement to increase production and to deliver what they produce. Generally speaking, industrial and agricultural workers no longer have the same inducement as before the war to increase their efforts, for, as a result of rationing, increased earnings do not always mean that they can obtain more consumption goods. Therefore it is essential to secure sufficient supplies for all workers in metropolitan or oversea territories, and particularly for agricultural workers. It would be impossible to try to secure immediately for these populations a standard of life as high as that which they had before the war in view of the world-wide scarcity of a certain number of food-stuffs, but it is essen-

tial during the months immediately ahead to provide for these workers a minimum without which economic disorder in many countries in Europe can only grow worse and worse. As a result of the existing dollar crisis a number of participating countries have had to curtail their imports very drastically. It is urgently necessary that their need of essential imports should be fully covered at the earliest possible moment. Otherwise production will diminish and the difficulties of stabilising their internal financial and economic situation, or of maintaining it in a stable condition, will be greatly intensified.

The Balance of Payments in 1948–51 on Certain Assumptions

8. The purpose of the individual and concerted action which the participating countries have resolved to take is to reduce the dollar deficit progressively from 1948 to the end of 1951. The dimensions of the problem will continue to be very great after 1948, for the productive effort generated in 1948 can only be sustained and developed further if the necessary supplies from overseas are forthcoming and are not cut off by unsolved dollar difficulties. A material contribution to solving these difficulties will, it is assumed, be obtained from the International Bank for Reconstruction and Development.

As explained in paragraphs 19 and 20, it is not possible to frame any precise estimate of the dollar deficit of the participating countries and Western Germany for the years 1949–1951. The tentative estimate given in Table 3 is based on a number of assumptions; these include the assumptions that their production will increase greatly, that the imports required for this will be available, that a state of full employment and full use of productive resources will be continuously maintained, that an increasing part of the needs of the participating countries and Western Germany can be obtained from Eastern Europe and from South-East Asia, that the goods which the participating countries can produce for export can be sold to the American continent and to the rest of the world, that there will be a progressive reduction in the price of imports in relation to the price of exports, and that non-participating countries will so far as necessary be able to pay for such goods in dollars (see paragraph 18).

9. On these assumptions a very tentative estimate may be made that the Balance of Payments of the participating countries and of

Western Germany with the American continent, and with other non-participating countries, will be of order of magnitude shown in Table 3.

Table 3—Tentative Estimate of the Net Balance of Payments of the Participating Countries, their Dependent Territories, and Western Germany 1948–1951

(Millions of U.S. dollars)

	1948	1949	1950	1951
With American Continent . . .	−8, 035	−6, 350	−4, 650	−3, 400
With Other Non-Participating Countries	−240	+250	+1, 000	+1, 800

10. For 1948, the calculations are made at the prices ruling at the 1st. July, 1947. For 1949, 1950 and 1951, the bases taken are:—(a) for exports the prices ruling at 1st. July, 1947, and (b) for imports a 7½% reduction (as compared with 1st. July, 1947) in 1949, a 10% reduction in 1950 and a 12½% reduction in 1951. This important point is dealt with in Annex B.

Nature and Amount of Imports

11. This dollar deficit is the financial counterpart of the flow of goods and services which is required from the American continent. The largest element in these imports consists of food (including fertilisers, feeding-stuffs and equipment) which still provides consumption per head at a lower figure than pre-war consumption. The difference would be considerably greater if the comparison were made between consumption per head of employed persons and their families in 1948 and pre-war, since pre-war (1934–38) there were in some of the participating countries millions of unemployed who were under-nourished. The next largest item consists of other normal imports such as petrol, cotton, timber and a number of raw materials which are essential to production. Abnormal imports, such as coal, are an important element in the problem, but only in the earlier years. The dollar problem does not, therefore, mainly arise from abnormal imports by the participating countries from the American continent. This is illustrated in Table 4, in which the net imports from the American continent are analysed.

Table 4.—Analysis of Imports from the American Continent into the Participating Countries (Excluding Dependent Territories) and Western Germany [a]

(Millions of U.S. dollars)

	1938 at 1947 prices	1948	1949	1950	1951	Total 1948–51
IMPORTS COVERED BY TECHNICAL COMMITTEES						
(i) *Commodities:*						
Food, feeding-stuffs and fertilisers	[b] 2850	3308	3580	3444	3385	13717
Coal and other solid fuels	neg.	342	198	99	27	666
Petroleum products	[c] 330	512	555	570	550	2187
Iron and steel products	91	370	310	309	303	1292
Timber	[b] 185	266	265	233	208	972
Total	3456	4798	4908	4655	4473	18834
(ii) *Reconstruction & Development Equipment:*						
Electrical equipment	------	150	175	125	50	500
Petroleum equipment	------	50	51	52	49	202
Steel plants	------	100	100	100	100	400
Total	n. a.	300	326	277	199	1102
(iii) *Other Equipment:*						
Agricultural machinery	------	370	313	268	237	1188
Mining machinery	------	80	54	46	40	220
Petroleum equipment	------	118	96	64	75	353
Inland transport equipment	------	203	177	81	29	490
Timber equipment	------	10	9	7	6	32
Total	------	781	649	466	387	2283
IMPORTS NOT COVERED BY TECHNICAL COMMITTEES.	n. a.	3286	3266	3178	3123	[d] 12853
Total imports from the American Continent	n. a.	9165	9149	8576	8182	35072
Less adjustment for change in terms of trade	------	------	686	858	1022	2566
	n. a.	9165	8463	7718	7160	32506

[a] All figures including those for 1938 are based on the prices of 1st. July, 1947. The adjustment of the cost of imports due to changing terms of trade (explained in paragraph 10) is made for total imports only.

[b] Average of 1934–38.

[c] Imports for which payment is made in United States dollars.

[d] The total ($12,853 millions) for imports not covered by the Technical Committees includes $1,148 millions for Reconstruction and Development Equipment; but no estimate is available of the amount included for Other Equipment. It will be seen that the total for equipment included in imports covered by the Technical Committees is $3,385 millions. Thus the total for equipment so far as ascertainable is $4,533 millions.

n. a.=not available neg.=negligible

12. The total import requirements of $9,200 millions in 1948 substantially exceed the imports from the American continent in 1946, which were less than $6,000 millions. The difference illustrates the expansion of economic activity on which the participating countries are basing their plans and the effect of the rise in prices. Some of the major factors are summarised in Annex C.

13. These imports do not represent a collection of all that the participating countries would like to import if no difficulties of supply or payment existed. As regards the commodities dealt with by the Technical Committees, they represent in the considered opinion of these Committees the essential needs for recovery. However, reductions have been made in cases when physical availabilities are not likely to meet justifiable requirements. In the case of the goods not covered by Technical Committees, requirements have in as many cases as possible been critically considered and discussed, though of course a complete and final screening of each item was not possible (see Annex D).

Analysis by Countries in 1948

14. It is not possible to give from the Reports of the Technical Committees a satisfactory analysis of the deficit with the American continent by countries, since the Technical Committees have estimated the *global* import need of each commodity. The Technical Committees could not estimate the deficits with various currency areas country-wise because, where full requirements cannot be met, available supplies will have to be allocated by the appropriate method, and also because it is impossible to foretell from what source a particular country will obtain supplies in future years. Similar considerations apply to the goods not dealt with by the Technical Committees. Governments have felt able, in most cases, to estimate their future imports of various raw materials and of manufactured goods, but not to predict from what sources they will be obtained.

A number of the participating countries, however, have estimated what their balance of payments on current account with the American continent and other non-participating countries would be in 1948 if they had sufficient foreign exchange to meet their requirements. On the basis of these estimates Table 5 has been drawn up.

Table 5—Balance of Payments of Certain Participating Countries (excluding Dependent Territories) and Western Germany in 1948

(Millions of U.S. dollars)

	With the American Continent				With other Non-Participating Countries			
	Imports	Exports	Net Invisibles	Deficit	Imports	Exports	Net Invisibles	Deficit
Belgium	n. a.	n. a.	n. a.	322	n. a.	n. a.	n. a.	n. a.
Denmark	230	22	−3	211	136	84	+8	44
France	1, 725	240	−271	1, 756	415	271	+7	137
Greece	551	50	−10	511	18	18	nil	nil
Italy	1, 212	332	−50	930	252	51	−12	213
Netherlands	697	157	−92	632	271	120	+6	145
Norway	n. a.	n. a.	n. a.	50	n. a.	n. a.	n. a.	20
Sweden	456	224	+86	146	n. a.	n. a.	n. a.	n. a.
United Kingdom	3, 355	895	−170	2, 630	2, 330	2, 320	+360	350 (surplus)
Germany								
Bi-Zone	1, 180	30	neg.	1, 150	n. a.	n. a.	n. a.	n. a.
French Zone	110	nil	−10	120	neg.	neg.	neg.	neg.

n. a.=not available
neg.=negligible.

For the following countries no similar figures are available because of the difficulty of foreseeing sources of supply:—

Austria
Iceland
Ireland
Turkey

For the position of Portugal and Switzerland, see Annex D, paragraph 3.

It does not follow from Table 5 that the relative shares of individual countries in the total deficit will be the same in subsequent years as they are estimated to be in 1948.

Estimate of Exports and Invisible Items

15. The preceding paragraphs deal with imports; it is now proposed to consider exports and items on invisible account (i. e., freight, dividends, tourist and other services). Table 6 gives for each year the estimated exports and also the estimated net balances on invisible account of the participating countries and Western Germany.

Table 6—Estimated Exports, and Net balances on Invisible Account of the Participating Countries (excluding Dependent Territories) and Western Germany

(Millions of U. S. dollars)

	1938 *	1948	1949	1950	1951
Exports to:					
United States	443	848	1109	1229	1484
Rest of American Continent	807	1311	1715	2139	2461
Other Non-Participating Countries	2365	4297	4981	5963	6816
Deficit (−) or surplus (+) on invisible account, with:					
United States	n. a.	−558	−450	−250	−325
Rest of American Continent	n. a.	−16	nil	+25	nil
Other Non-Participating Countries	n. a.	+384	+500	+550	+625

* At 1938 prices. The figures in this column relate to exports from participating countries and from the *whole* of Germany.

n. a. = not available

The estimates of exports are based on the assumptions set out in paragraph 8; in particular, they assume a direction of the exports of the participating countries towards the American continent and other non-participating countries, so far as this seems a reasonable and possible course.

CHAPTER III

Action to Attack the Problem

Contribution of the Participating Countries

16. (i) *Internal Reforms.* The Report of Financial Experts (Appendix E, Chapter I) sets forth the basic importance of creating and maintaining financial and economic stability in the participating countries and in Western Germany. Internal financial and economic reforms, where they are required, will help to put an end to the evasion of exchange control and to hoarding in all its forms (see paragraphs 6 and 7 of this Report). Such reforms are an essential and all-important first step.

(ii) *Production.* By greatly increasing production, the participating countries and Western Germany will make possible a reduction of imports from the American continent of goods which these countries can produce efficiently and have normally produced in the past. For example, it will progressively become less necessary to import such supplies as coal, and, in the case of certain countries, wheat. This increased production contributes to the narrowing of the gap. Similarly, the participating countries will do all that lies in their power to promote the development of production in their overseas territories, and this will be a further contribution to the narrowing of the gap. More-

over, these countries will do all that lies in their power to develop and make more efficient their production of exportable goods and thus will provide a condition, so far as they are concerned, for a rapid expansion of their exports to the American continent.

The External Position; Sources of Supplies

17. These measures are the contribution which the participating countries can themselves make to this problem. But the problem cannot be solved by these measures alone. It has been assumed that an increasing proportion of the imports of participating countries will be obtained from Eastern Europe and Asia and other non-participating areas in cases where they are traditional and economically efficient sources of supply. This is illustrated in Table 7. The extent to which Western Germany will be able to obtain foodstuffs from Eastern Europe is of decisive importance in this connection.

Table 7—Sources of Imports of the Participating Countries (excluding their Dependent Territories) and Western Germany

(Millions of U.S. dollars)

	1938 (at 1947 prices)	1948	1949	1950	1951
FOOD, FEEDING STUFFS AND FERTILISERS					
From American Continent	[a] 2,850	3, 308	3, 580	3, 444	3, 385
From other Non-Participating Countries	[a] 3,930	1, 937	2, 409	2, 636	2, 750
% from American Continent	[a] 42	63	60	57	55
COAL AND OTHER SOLID FUELS					
From American Continent	neg.	342	198	99	27
From other Non-Participating Countries	150	255	375	420	465
% from American Continent	neg.	57	35	19	5
PETROLEUM PRODUCTS					
From American Continent [b]	330	512	555	570	550
IRON AND STEEL PRODUCTS					
From American Continent	91	370	310	309	303
From other Non-Participating Countries	50	43	37	32	34
% from American Continent	65	89	89	90	90

See footnotes at end of table.

Table 7—Sources of Imports of the Participating Countries (excluding their Dependent Territories) and Western Germany—Con.

(Millions of U.S. dollars)

	1938 (at 1947 prices)	1948	1949	1950	1951
TIMBER					
From American Continent	[a] 185	266	265	233	208
From other Non-Participating Countries	[a] 586	253	315	392	457
% from American Continent	[a] 24	51	46	37	31
COMMODITIES NOT COVERED BY TECHNICAL COMMITTEES					
From American Continent	n. a.	3, 286	3, 266	3, 178	3, 123
From other Non-Participating Countries	n. a.	2, 211	2, 307	2, 402	2, 468
% from American Continent	n. a.	60	59	57	56
TOTAL IMPORTS [c]					
From American Continent	n. a.	9, 165	9, 149	8, 576	8, 182
From other Non-Participating Countries	n. a.	4, 702	5, 445	5, 884	6, 176
% from American Continent	[d] 45	66	63	59	57
LESS ADJUSTMENT FOR CHANGE IN TERMS OF TRADE					
American Continent	. . .	. . .	686	858	1, 022
Other Non-Participating Countries	. . .	. . .	408	588	772
TOTALS					
From American Continent	n. a.	9, 165	8, 463	7, 718	7, 160
From other Non-Participating Countries	n. a.	4, 702	5, 037	5, 296	5, 404

[a] Average of 1934–38.

[b] The figures given cover petroleum products for which payment is made in United States dollars. Petroleum products for which payment is made in currencies of the participating countries are not treated as "imports from non-participating countries" even though the geographical source is a non-participating country.

[c] The total imports include, in addition to the commodities specified, equipment goods covered by the Technical Committees.

[d] Approximate figure.

All the figures in Table 7, including those for 1938 are at 1st. July 1947 prices. The adjustment in this table for changes in the terms of trade is made for total imports from each of the two areas only.

n. a.=not available neg.=negligible

Dollar-Earning Markets

18. A fact of fundamental importance is that the problem cannot be solved unless conditions in American markets are such as will enable vastly increased exports from the participating countries to find buyers. Furthermore, the traditional method in which Europe has paid the American continent has been by an export surplus with the rest of the world. It is therefore essential that there should be an adequate flow of dollars to the rest of the world so that the participating countries and Western Germany may be able to earn dollars, not only directly by their exports to the American continent, but also indirectly by their exports to other countries.

CHAPTER IV

THE PROSPECTS OF A PROGRESSIVE SOLUTION OF THE PROBLEM

19. A balance sheet extending to 1951 becomes inevitably more conjectural each year. It would be meaningless to give figures purporting to prove that the dollar problem of the participating powers and Western Germany would be solved as on the 1st. January, 1952, or any other exact date. The problem is a continuing one and will continue to call for efforts on the part of these countries. The rhythm of increasing production will have to be carried on so that the participating countries will grow and produce more and so need to import correspondingly less, and will at the same time continue to increase their production of goods for export. A number of factors will favour their efforts. Long-term plans of increased production will begin to give their full yield. As economic equilibrium is reached and inflation is ended, goods will come out of hoard. As credit is re-established, there will be an inward flow of both domestic and foreign capital, and expenditure which is normally financed on credit will again be financed in that way.

20. On the other hand, the world considerations referred to in the previous paragraphs will, as time goes on, become more and more decisive. The solution of the problem will depend more and more on the possibility of the participating countries earning dollars by the sale of goods which they produce. Recovery will make it possible for

these countries to increase continually their contribution to the removal of the mal-adjustment of the production in the world which the the war brought about. But the solution of the problem requires also a contribution from the United States and other non-participating countries in order to establish the trading basis of the world on a balanced post-war footing, and to enable the participating countries to pay for their essential imports by earning dollars through their exports both to the American continent and to other non-participating countries. It lies beyond the wit of man to prophesy the future. The plan for concerted action by the participating countries is a plan to end the immediate crisis and to move towards equilibrium. This involves re-shaping the pattern of world production and world trade which is at present out of joint. Given these conditions, the plan will succeed. The exact date at which it will be crowned with success depends on the history of the next few years which is still veiled from human eyes.

ANNEX A

List of Countries Represented on the Committee

Denmark
France
Italy
Netherlands
United Kingdom

ANNEX B

Note on the Terms of Trade

1. For 1948, calculations of import and export values are made at the prices ruling on the 1st. July, 1947. Any estimate of prices in years subsequent to 1948 is inevitably of a very speculative character. But some assumption has to be made, and an assumption that the relation between the cost of imports and the price of exports which existed on 1st. July, 1947, will continue unchanged until the 31st. December, 1951 would not, of course, rest on a more solid basis than any other assumption.

2. At the present time the prices which the highly industrialised countries pay for their imports are probably some 20% higher in relation to the prices which they obtain for their exports than was the case in 1938. This arises partly from the distortion of world production (which forces countries into high-cost sources instead of

traditional low-cost sources); partly from the artificial price structures in some parts of the world; and partly from a general world upward swing of prices of primary products in terms of manufactured goods. It is reasonable to expect that the adverse effects of these conditions on the countries concerned will gradually diminish.

3. For 1949, 1950 and 1951, the assumptions made in this report are:—

(a) that for *exports*, there will be no change in prices as compared with those ruling at 1st. July, 1947;

(b) that for *imports*, prices will be reduced, as compared with 1st. July, 1947:—

in 1949 by 7½ per cent
in 1950 by 10 per cent
in 1951 by 12½ per cent

4. The assumption that the prices of exports will be unchanged and that the prices of imports will be reduced is made in order to put the matter in a simple form. In fact no doubt the prices of both exports and imports will vary; but what matters is the relative change in import prices and export prices.

ANNEX C

Comparison Between Imports in 1946 and Import Requirements in 1948

The import requirements of the participating countries and Western Germany from the American continent in 1948, namely, $9,200 millions, exceed actual imports in 1946, namely, less than $6,000 millions, for the following reasons:—

(i) In 1946, it was physically impossible to obtain many essential imports. The United Kingdom imports, for example, were only 70% in volume as compared with pre-war, and it was necessary to reduce stocks to a dangerously low level.

(ii) Prices in 1948 are assumed to be those ruling on 1st. July, 1947, which exceeded those ruling in 1946 by some 30% to 40% on the average.

(iii) Many countries, desperately short of coal, were forced to cut down production and therefore needed less raw materials.

(iv) Many countries had acute exchange difficulties.

(v) In Western Germany economic life was at a standstill and food imports were inadequate.

ANNEX D

Examination of Imports and Exports of Goods Not Dealt With by Technical Committees and of Invisible Payments and Receipts

1. Estimates of imports and exports of goods not dealt with by a Technical Committee were made from replies to a special Questionnaire. The principal figures as regards imports are as follows:—

Total Imports by Participating Countries (excluding their Dependent Territories) and Western Germany of Goods not dealt with by Technical Committees

(Millions of U.S. dollars)

	1947	1948
Raw Materials:		
Cotton	716	948
Wool	628	788
Non-ferrous ores and metals	855	1, 111
Soda	24	25
Wood pulp for paper	200	218
Hides and leather	328	422
Other	1, 406	1, 774
Total Raw Materials	4, 157	5, 286
Other Imports	3, 139	4, 039
Total Imports	[a] 7, 849	[a] 9, 916

[a] Including imports into Sweden (553 in 1947, 464 in 1948) and imports into the French Zone of Germany in 1948, not included in the analysis above.

The Table above shows the gross imports of goods not covered by the Technical Committees. Since no division of these imports by source of supply can be made, the figures include imports from other participating countries; they therefore involve a good deal of duplication. The object of the Table is simply to show the relative importance of the various commodities imported.

Examination of Imports

2. In each case where imports in 1948 appeared to exceed in quantity the imports in 1938 the figures were examined and inquiries made. For France, for example, it was explained that 1938 was a year of very low economic activity. In Italy, foreign trade was reduced by

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foreign exchange difficulties. In the Netherlands, again, a much higher level of production is expected in 1948 than in 1938, when there was heavy unemployment, while the population has increased from 8.6 million in 1938 to 9.5 million in 1947 and is expected to exceed 10 million in 1951. These factors mean that whereas, for example, only 58,000 tons of raw cotton were imported in 1937–8, imports in 1948 are expected to be 65,000 tons and in 1951 they are estimated to rise to 73,000 tons. These are examples of a general and natural tendency for import requirements, in conditions of full employment, to exceed imports in a time of depression and unemployment.

In Germany (Bi-Zone) imports of hides are expected to rise on account of the reduction in the cattle population, while imports of non-ferrous metals are expected to increase because aluminum has to be imported in place of bauxite ore.

The figures for wood pulp for paper making, were specially examined because of the world shortage of supplies of this commodity. In view of the reduced export supplies available from European producers (due to competing demands on timber, for instance, for pit-props, and to shortages of raw materials and labour), and because of the pressure on supplies in North America, it was felt that the requirements submitted were in fact unlikely to be met in full. Accordingly it was agreed to reduce over-all import requirements in 1948–51 by 20 per cent; this reduction in effect reduces the requirements to approximately the rate of supplies available in 1947.

Examination of Exports

3. The estimates of exports to non-participating countries, other than the American continent, as stated in the replies to the Questionnaire, have been increased by the following amounts:—

(Millions of U. S. dollars)

1948	1949	1950	1951
200	300	400	500

This increase has been made for the following reason. It appeared from the replies to the Questionnaire that in 1948 the exports which certain of the participating countries expected to send to other participating countries exceeded the imports which those other countries expected to be able to take from other participating countries by over

one billion dollars. Figures for later years were not available, but it is presumed that they would have revealed a similar discrepancy on a larger scale each year. This means that, on the figures as given, the countries concerned would be able to *produce* more goods for export to other participating countries than they would be able to *sell*. Part of the discrepancy should be removed by the reduction of import restrictions as between the participating countries as the result of the proposals made in Chapter II of the Report of Financial Experts. A further part of the goods produced for export should be able to find a market in non-participating countries as the result of efforts to direct exports towards those countries. As a result of such efforts, it is estimated that the exports of the participating countries and Western Germany as a whole to the non-participating countries can be increased by the amounts specified above.

Coverage of Returns

4. Questionnaires were sent to all participating countries and to the Control Authorities in Germany. An estimate is also included in the figures for the Balance of Payments of the Free Territory of Trieste.

Some of the replies to the Questionnaire on the Balance of Payments were incomplete. No reply was received from Iceland. As regards Turkey, see paragraph 5 below. No figures have been included for these countries in respect of their imports or exports of commodities not covered by the Technical Committees, or in respect of their invisible payments or receipts.

Some countries were unable to provide a division by currency areas of certain items in their balance of payments. In these cases, the total has been divided by currency areas in the same proportion as the average for all participating countries.

The Swiss Government was unable to provide any figure for its payments or receipts on invisible account, but reported that its net income from these sources approximately offset its deficit on visible trade. Accordingly, no net deficit has been assumed for Switzerland.

The Portuguese Government informed the Conference that unless an abnormal drain of dollars takes place as a result of the relatively free monetary and trade policy hitherto pursued by the Portuguese Government, Portugal has sufficient dollars for the necessities of its economy in the immediate future.

5. The following summarises figures given by the Turkish Government of Turkey's estimated Balance of Payments, 1948–51.

Turkey

Estimated Balance of Payments, 1948–51

(Millions of U.S. dollars)

	1948	1949	1950	1951
Imports f. o. b.	422. 4	448. 9	468. 9	465. 2
Exports	223. 2	283. 6	323. 2	380. 7
Deficit on Visible Account	199. 2	165. 3	145. 7	84. 5
Deficit on Invisible Account	12. 4	6. 1	3. 9	(surplus) 2. 0
Total Deficit	211. 6	171. 4	149. 6	82. 5

Owing to the slowness of communications between Paris and Ankara and the shortness of time available, it was not found possible by the Turkish Government to estimate imports and exports from the American continent separately from total imports and exports, nor to give separate data relating to goods not dealt with by the Technical Committees.

ANNEX E

Estimate of Balance of Payments of the Participating Countries (Excluding Their Dependent Territories) and Western Germany With Non-Participating Countries

(Millions of U.S. dollars)

	Imports			Exports			Net Balance on Invisible Account	Total Current Balance
	Tech. Cttee. Goods	Other Goods	Total Imports	Tech. Cttee. Goods	Other Goods	Total Exports		
(1) With United States								
1948	3, 852	2, 074	5, 926	66	782	848	−558	−5, 636
1949	3, 219	1, 711	4, 930	89	1, 020	1, 109	−450	−4, 271
1950	2, 727	1, 532	4, 259	109	1, 120	1, 229	−250	−3, 280
1951	2, 379	1, 405	3, 784	109	1, 375	1, 484	−325	−2, 625
								−15, 812
(2) With Rest of American Continent								
1948	2, 027	1, 212	3, 239	187	1, 124	1, 311	−16	−1, 944
1949	2, 223	1, 310	3, 533	240	1, 475	1, 715	neg.	−1, 818
1950	2, 131	1, 328	3, 459	364	1, 775	2, 139	+25	−1, 295
1951	2, 048	1, 328	3, 376	436	2, 025	2, 461	neg.	−915
								−5, 972

Estimate of Balance of Payments of the Participating Countries (Excluding Their Dependent Territories) and Western Germany With Non-Participating Countries—Continued

(Millions of U.S. dollars)

	Imports			Exports			Net Balance on Invisible Account	Total Current Balance
	Tech. Cttee. Goods	Other Goods	Total Imports	Tech. Cttee. Goods	Other Goods	Total Exports		
(3) With Total American Continent (1+2)								
1948	5, 879	3, 286	9, 165	253	1, 906	2, 159	−574	−7, 580
1949	5, 442	3, 021	8, 463	329	2, 495	2, 824	−450	−6, 089
1950	4, 858	2, 860	7, 718	473	2, 895	3, 368	−225	−4, 575
1951	4, 427	2, 733	7, 160	545	3, 400	3, 945	−325	−3, 540
								−21, 784
(4) With other Non-Participating Countries								
1948	2, 491	2, 211	4, 702	1, 007	3, 290	4, 297	+384	−21
1949	2, 903	2, 134	5, 037	1, 251	3, 730	4, 981	+500	+444
1950	3, 134	2, 162	5, 296	1, 733	4, 230	5, 963	+550	+1, 217
1951	3, 244	2, 160	5, 404	2, 081	4, 735	6, 816	+625	+2, 037
								+3, 677

neg. = negligible

The Table above has been drawn up on the following basis:—

(i) *Technical Committee Goods:* Figures supplied by Committees for each year;

(ii) *Other Goods:* Not all countries have provided estimates of their imports and exports for the whole period 1948–51. To reach total estimates, it has therefore been assumed:—

(a) that *total* imports and exports of all participating countries will change in the same ratio as the total imports and exports of the countries which have given estimates for 1949–51: Austria, France, Greece, Italy, Netherlands, United Kingdom, Germany (Bi-Zone)—which together account for nearly 75% of the total imports and exports of the participating countries;

(b) that the geographical distribution of imports and exports of all participating countries will change during 1949–51 in the same proportions as the estimated distribution of the imports and exports of those countries which have provided estimates for those years.

(iii) *Invisible Items:* The net balance with each currency area is assumed to change from 1948 to 1951 in the same ratio as the net balance of the countries which have given estimates for those years.

ANNEX F

Net Surplus (+) or Deficit (−) (Including All Commodities and Invisible Items) of Dependent Territories With All Non-Participating Countries

(Millions of U.S. dollars)

	Belgian	British	Dutch	French
(1) With United States				
1948	n. a.	+150	n. a.	−125
1949	"	+150	"	−113
1950	"	+175	"	−69
1951	"	+200	"	−13
(2) With Rest of American Continent				
1948	"	−40	"	−17
1949	"	−40	"	−15
1950	"	−40	"	−8
1951	"	−40	"	−4
(3) With Total American Continent (1+2)				
1948	−23	+110	−400	−142
1949	−24	+110	n. a.	−128
1950	−25	+135	"	−77
1951	−25	+160	"	−17
(4) With other Non-Participating Countries				
1948	−4	−200	"	−15
1949	−5	−210	"	−3
1950	−5	−220	"	+5
1951	−5	−230	"	+10
(5) With all Non-Participating Countries (3+4)				
1948	−27	−90	"	−157
1949	−29	−100	"	−131
1950	−30	−85	"	−72
1951	−30	−70	"	−7

The figures above for French territories refer to visible items only. All invisible items in the Balance of Payments of the 'Franc Zone' are attributed to Metropolitan France.

The Netherlands Government feel unable to make estimates for the period 1949–51.

n. a. = not available.

APPENDIX E

REPORT OF FINANCIAL EXPERTS

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Austria	Greece	Portugal
Belgium	Italy	Sweden
Denmark	Netherlands	Switzerland
France	Norway	United Kingdom

INTRODUCTION

1. In financial and monetary questions, European self-help and European co-operation have a particularly important part to play. These questions will be considered under three aspects:

(*i*) Internal financial and economic reforms;
(*ii*) The relaxation of trade barriers between European countries by making one European currency transferable into other European currencies;
(*iii*) The progressive realisation of stable economic equilibrium.

2. As will be explained later in this Report, all assistance to be received from the United States under any heading will, if handled in a proper way, further the measures which the European countries themselves will take towards internal financial and economic reform. The proposal to make one European currency transferable(1) into other European currencies will not need additional American assistance, but will need the arrangement, in an appropriate manner, of American assistance in respect of the deficit on current account of the participat-

(1) The term "transferability" is used to denote the possibility under certain conditions, of exchanging one European currency into another European currency. In Chapter II of this Report, the term "conversion" is used to denote the exchange under certain conditions of a currency into gold or United States dollars. In Chapter III the word "convertibility" is used as it is defined in paragraph 20 (*iii*) of that Chapter.

ing countries and Western Germany with the rest of the world, which will remain after these countries have made the maximum efforts of production and co-operation. The progressive realisation of stable economic equilibrium within a reasonable period will not be possible, unless supplemented by American assistance given for that purpose.

CHAPTER I

Internal Financial and Economic Reforms

3. In a number of countries the most pressing need as a first step towards economic stabilisation is to restore order to public finance and, on this basis, to achieve a stable and satisfactory price, wage and currency structure. It is a matter for national and not for international or external decision by what measures this object is to be achieved. The Declarations which a number of Delegations have made on this subject are appended to this Report.(2)

4. But though this is a matter of national policy and national decision, it is also a matter of European importance. Without the progressive realisation of such reforms, where they are required, the economic recovery and stabilisation of Europe and the ultimate convertibility of European currencies cannot be achieved.

5. The participating countries will not be justified in asking American assistance unless it is their firm intention to realise such reforms, where they are needed; nor without such reforms would American assistance achieve its purpose. American assistance must be used in a constructive way to further such reforms.

6. American assistance constitutes, during the years in which it is received, an addition to the national income of the recipient country. It must be used as a stepping stone towards recovery. It must, in short, be used in such a way that at the end of the period national income in the widest sense will cover national expenditure without further special external assistance.

7. American assistance should, to the maximum extent possible serve to reduce inflationary pressure where it exists. For example, the local currency received by any government concerned as the result of such assistance which directly or indirectly takes the form of imported goods, should be used, as circumstances make it appropriate, to put an end to the recourse to Banks of Issue to cover budget deficits, to repay advances already received from Banks of Issue, or to reduce the resort to other inflationary budget practices. In so far as American assistance makes it possible to incur new public expenditure, without undesirable

(2) These Declarations are printed in Volume II.

inflation, such expenditure should preferably be directed to productive purposes.

8. American assistance which takes the form of strengthening a country's depleted gold or foreign exchange resources as proposed in paragraphs 20 and 22 (*ii*) should play an important part in internal financial and economic reform by creating or maintaining confidence in national currencies and thus promoting the stability of those currencies. The confidence so created should also facilitate internal savings, which in turn have a stabilising effect on the national economy under present circumstances.

9. The Committee accordingly recommends that the Committee of Co-operation should take note of the declarations made on behalf of a number of governments on the subject of internal financial and economic reforms, and of the firm intention of those governments to realise such reforms.

CHAPTER II

Inter-European Payments Arrangements

10. The present section deals with the problem of how to enable European countries to develop trade between each other so far as this result can be achieved by making inter-European payments agreements more flexible; and the problem how to meet, in gold or dollars, deficits resulting from such trade in so far as these deficits exceed the credits provided for in these payments agreements.

11. The system [1] which we are about to describe is an essential step towards establishing a more liberal commercial policy within Europe. It will enable countries, within the limits of what they can afford to import, to reduce barriers to inter-European trade, and to develop this trade at a higher general level and more on the multilateral basis which is the objective of the proposed International Trade Organisation. This system cannot achieve its object unless it is accompanied by the progressive relaxation, and eventually the complete abolition, of quantitative restrictions due to balance of payments difficulties and to exchange restrictions due to such difficulties—at any rate for all transfers which correspond to payments for current transactions. The practical importance of the proposals described below will be determined by the extent to which they will enable the European countries to liberalise trade between themselves.

[1] The remarks contained in the following paragraphs do not necessarily all apply to the payments agreements concluded with countries whose currencies are convertible.

12. The principal obstacle to the development of inter-European trade lies in the insufficiency of European production, but the position is aggravated by certain defects inherent in the mechanism of the payments arrangements now in force. Trade between European countries is organized to-day by bilateral agreements, which generally provide for settlement in gold or in convertible currencies of the debit balances in excess of the credit margins granted under these agreements. These agreements have proved useful in so far as they make it possible to surmount the basic difficulties due to insufficiency of production and to weakness of currency and gold reserves. But owing to the limited possibilities of combining these various agreements most countries are anxious to make sure that the transfers between each pair of the European countries concerned reach an exact balance in order to economise their gold and foreign exchange reserves. This deficiency in the system of bilateral agreements has contributed, to a certain extent and in certain cases, to hamper and distort the development of trade.

13. Clearly, therefore, these defects should be corrected in order that countries which now have a surplus production, or which as the result of American assistance will in future have a surplus production, should, as the result of greater freedom of international trade, be able to place their export capacity at the disposal of countries which can make use of it.

14. This object could be attained through the more efficient utilisation of exchange reserves, if each country could set off debits against credits by means of the transferability of European currencies between each other. The transferability of European currencies would permit a country which has a credit in its relations with another country to use it to settle a debit resulting from current payments to a third country. A set-off of this nature would reduce to a minimum payments in gold and convertible currencies which at present European countries are generally required to make to settle the balances which occur periodically owing to the working of bilateral agreements. This system would make it possible to abandon the existing procedure for a bilateral balance of trade, and to deal only with the disequilibrium of the trade of a given country in relation to other countries of Europe taken together.

15. The transferability of currencies requires the consent of the country which accepts the currency and also of the country whose currency is transferred. Possibly, as a first step, this consent might be given in each particular case, but in order to make transferability really effective, it is necessary that the practice of transfers should be generalised by the conclusion of agreements between the countries concerned.

16. Transferability as described above must ultimately rest on the principle that the amounts owed to a country in excess of the margins provided for by payments agreements should be convertible into gold or United States dollars. This possibility of conversion is essential, for, if (as is assumed) certain European countries are in a debtor position towards other European countries as a whole, other countries must necessarily have a creditor position. The creditor position which they build up in relation to European countries as a whole, is generally accompanied by a debtor position in regard to extra-European countries, and it is therefore essential to allow them to mobilise their credits in Europe in order to enable them to discharge their debts outside Europe. This conversion should of course be arranged in such a way as to reduce to the greatest possible extent the necessity to utilise gold and dollars.

17. The Financial Committee recommend that steps should be taken to work out the technical details of this system. Accordingly, they recommend that a meeting of experts should be arranged in London on the 22nd September next.

18. Assuming that adequate American assistance is received in respect of the deficit of the participating countries taken as a whole, this system does not require any net addition to such American assistance. It does, however, require that American assistance should be so arranged as to provide an adequate guarantee for the conversion of the amounts due in excess of the credits provided for in the payment agreements. A portion of the assistance should be set aside for this purpose; and should be calculated, in the case of countries having net deficits towards other participating countries as a whole, on the basis of those deficits.

19. The Committee accordingly recommended that the Committee of Co-operation should—assuming that the American assistance will be available—decide to adopt the Proposal in regard to payments arrangements between the European currencies made by the Delegations of Belgium, the Netherlands and Luxemburg, in the form set out in this Chapter, and to approve the recommendation made to work out the technical details of this proposal.

CHAPTER III

The Ultimate Objective

20. The ultimate objective that the countries concerned seek to attain is to restore a satisfactory equilibrium in the European economic structure and, in particular, to put an end to the difficulties which result from the Balance of Payments deficits of European

countries, both between themselves and between them and the rest of the world.

Progressively, in proportion as such equilibrium is attained, it will be possible to achieve:

(*i*) the abolition of the quantitative restrictions due to payments difficulties which at present impede the exchange of goods and services;

(*ii*) the abolition of exchange restrictions, at any rate for all payments relating to current transactions, and of barter transactions and "private compensation";

(*iii*) the re-establishment of the convertibility of currencies between central banks; for this purpose convertibility means that the amounts of the currencies acquired in payment for current transactions may be converted into any other currency for the purpose of payments for current transaction. Some of the European countries have already realised such convertibility; others are near to doing so; others are, as yet, far from doing so. The first group should be enabled to maintain this effort, the second to pass from inconvertibility to convertibility, and the third to realise progressively the condition of convertibility.

21. The restoration and stabilisation of the European economy require:—

(*i*) monetary reform (assainissement) based on the restoration of equilibrium in public finance where such reform has not already been attained, as set out in Chapter I;

(*ii*) the expansion of production in order to bring it up to a satisfactory level of consumption and investment;

(*iii*) The re-establishment of equilibrium in the balance of payments at a level facilitating a greater volume of trade and greater freedom in the movement of persons.

These three phenomena are inter-related, and reform and stabilisation can only be achieved by progressive and systematic measures in all three fields.

22. Such reform and stabilisation depend primarily on an internal effort by each country concerned with the object of achieving increased trade and production on the basis of sound finance and currency. But recovery can be greatly accelerated if it is supported by inter-European co-operation, as explained above, and by American assistance. In this connection:—

(*i*) it is essential for the participating countries to receive the resources necessary to meet the disequilibrium of their balances of payments, which will remain after they have made the maximum efforts of production and co-operation;

(*ii*) it is not less essential, that special additional assistance from the United States should be devoted to promoting the success of the measures taken by the countries concerned to stabilize their economy and finances. American assistance would also enable the participating countries in due course to establish the convertibility of their currencies.

23. The assistance provided for in paragraph 22 (*ii*) above should be calculated on the basis of the resources which each country concerned needs, to stabilize its economy and its finances, and to make its money convertible in due course, or to maintain its convertibility. It might, for certain countries, appropriately be fixed at an amount equivalent to the quota of the country concerned in the International Monetary Fund with corresponding amounts for countries which are not members of the Fund.

24. The Committee accordingly recommend that the Committee of Co-operation should—assuming that the American assistance will be available—invite the countries concerned to place on record their decision to aim at making their currencies convertible, after the necessary conditions have been fulfilled.

ANNEX

Countries Represented on the Committee of Financial Experts

Austria	Luxemburg
Belgium	Netherlands
Denmark	Norway
France	Portugal
Greece	Sweden
Iceland	Switzerland
Ireland	Turkey
Italy	United Kingdom

CONVERSION TABLES FOR MEASUREMENTS

Table 1—Length

U.S. Miles (mi)	Kilometers (km)	U.S. Miles (mi)	Kilometers (km)
1	1. 609347	0. 621370	1
2	3. 218694	1. 242740	2
3	4. 828042	1. 864110	3
4	6. 437389	2. 485480	4
5	8. 046736	3. 106850	5
6	9. 656083	3. 728220	6
7	11. 265431	4. 349590	7
8	12. 874778	4. 970960	8
9	14. 484125	5. 592330	9

Table 2—Area

Acres (acre)	Hectares (ha)	Square miles (sq. mi)	Square kilometers (km^2)
1	0. 4047	1	2. 5900
2	0. 8094	2	5. 1800
3	1. 2141	3	7. 7700
4	1. 6187	4	10. 3600
5	2. 0234	5	12. 9500
6	2. 4281	6	15. 5400
7	2. 8328	7	18. 1300
8	3. 2375	8	20. 7200
9	3. 6422	9	23. 3100
2. 471	1	0. 3861	1
4. 942	2	0. 7722	2
7. 413	3	1. 1583	3
9. 884	4	1. 5444	4
12. 355	5	1. 9305	5
14. 826	6	2. 3166	6
17. 297	7	2. 7027	7
19. 768	8	3. 0888	8
22. 239	9	3. 4749	9

Table 3—Weight

Avoirdupois lbs.	Kilograms	Short tons	Long tons	Metric tons
2240	1016.05	1.12	1	1.01605
4480	2032.09	2.24	2	2.03209
6720	3048.14	3.36	3	3.04814
8960	4064.19	4.48	4	4.06419
11200	5080.24	5.60	5	5.08024
13440	6096.28	6.72	6	6.09628
15680	7112.32	7.84	7	7.11232
17920	8128.38	8.96	8	8.12838
20160	9144.42	10.08	9	9.14442
2204.62	1000	1.10231	0.98421	1
4409.24	2000	2.20462	1.96841	2
6613.87	3000	3.30693	2.95262	3
8818.49	4000	4.40924	3.93683	4
11023.11	5000	5.51156	4.92103	5
13227.73	6000	6.61387	5.90524	6
15432.36	7000	7.71618	6.88944	7
17636.98	8000	8.81849	7.87365	8
19841.60	9000	9.92080	8.85786	9

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