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ECONOMIC COOPERATION ADMINISTRATION

Washington, D. C.

Explanation and Justification of Appropriation Request for 1950/51

A. Pages 1-20

Feb. 7, 1950

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1. <u>The Appropriation Request for 1950/51</u>.

The ECA proposes to request the appropriation for Fiscal Year 1951 of $3,076,077,266 for all purposes. The way in which this figure is arrived at can best be explained by reference to Tables 1 and 2 which show, respectively, the source and disposition of ECA funds from the beginning of the program through June 30, 1951. The following is a summary of the more important elements that enter into the calculation.

For the current fiscal year the ECA has available for obligation a total of $3,917,180,300. Of this amount, however, $46,941,194 represents funds allocated to specific countries by the ECA prior to the beginning of the current fiscal year against previous year's program. Thus the balance of $3,870,239,106 is the sum available to cover the needs of the current year.

On the basis of a careful appraisal of the progress of the European Recovery Program, it is now estimated that this full amount will not be required to meet essential needs in the current fiscal year. It is, therefore, proposed that $75 million of the funds available from previous appropriations and other sources be carried over into Fiscal Year 1951 to count against the needs of that year.

The total funds required for obligation in the Fiscal Year 1951 amount to $3,151,077,266. Since $75 million of Fiscal Year 1950 funds will be available to cover a part of this requirement, $3,076,077,266 of new funds will be needed. The total includes administrative expenses and the cost of such special operations as the Technical Assistance Program, the transportation of Relief Packages, and the procurement of strategic materials, the requirements for which are described in separate justifications. A total of $64,377,266 is requested for these purposes, leaving a requirement for program funds of $3,086,700,000. It is with the need for program funds in Fiscal 1951 that this justification is primarily concerned.

The basic statistical material presented herewith in justification of this appropriation request consists of balance of payments estimates and estimates of required dollar imports for all the participating countries for both the current fiscal year and the Fiscal Year 1951. The significance of these estimates, especially for the latter of these two years, and the manner in which they were arrived at can be fully understood only in the light of the change that is taking place in the nature of the European recovery problem and in the ECA's approach to the administration of economic assistance. These changes are discussed below. The statistical relationship between the balance of payments calculations and the amount of the appropriations request is, however, perfectly straightforward and is shown in Table 3 entitled "ERP Aid 1949/50 and 1950/51".

The upper part of the table shows the proposed direct country aid for the two fiscal years. The figure given as total direct country aid for each year corresponds to the figure for total ERP aid which appears in Col. 3, Line 10 A. of the consolidated summary balance of payments table for the year in question. Certain adjustments to these direct country aid figures are given in the lower part of Table 3, of which only two require mention at this point. The first is a figure of

$189.6 million shown in Table 3 as a reserve for special purposes in the current fiscal year. This is a sum deliberately withheld by the Administrator from direct country aid to be used as an incentive to the participating governments to accelerate overseas development, to press forward aggressively with trade liberalization and to accomplish certain other results. The ECA's present plans for the use of this fund are discussed in a subsequent part of this justification.

The other adjustment item is an allowance for aid to French Indo-China. This program is just about to be initiated by the ECA with the support of the State Department. No such program was contemplated until the recognition of the Bao Dai Regime in French Indo-China appeared imminent. The program itself is not expected to finance all types of dollar imports into French Indo-China. Rather it will be used to supplement dollar imports already being financed by the French Treasury. It will thus be a project type of program not directly related to a balance of payments calculation. To put the matter another way, ECA dollars will be provided only to finance dollar expenditures that would not otherwise be incurred and that have not been incurred up until the present time. Some account of the expected composition of the program will be given in a separate memorandum but its general nature precludes the use of a balance of payments analysis.

TABLE I

SOURCE OF ECA FUNDS

April 3, 1948 - June 30, 1949

Original Appropriation (P.L. 793)	4,000,000
Public Debt Transaction (P.L. 472)	1,000,000
Less Amount Allocated for Investment Guaranties	27,700
April - June 1949 Supplement (P.L. 327)	1,074,000
Recapture from P.L. 389	14,500
Total	6,060,800,000
Less unallocated carryover	78,821,869
Total for disposition before June 1949	5,981,978,131

July 1, 1949 - June 30, 1950

Carried over from 1948/49	78,821,869
Regular Appropriation for 1949/50 (P.L. 327)	3,628,380,000
Public Debt Transaction (P.L. 327)	150,000,000
Recapture from P.L. 389	5,000,000
Reimbursement to Appropriation 1/	8,037,237
Total available for Commitment	3,870,239,106
Less unallocated carryover	75,000,000
Total for disposition in FY 1950	3,795,239,106

July 1, 1950 - June 30, 1951

Carried over from 1949/50	75,000,000
Appropriation Requested	3,076,077,266
Total for disposition in FY 1951	~~3,151,077,266~~
	1,950,000,000

~~1/ Dept. of Army~~ 1949	7,870,008
" " " 1950	1,229
China Appropriation	61,000
Korea "	105,000
	8,037,237

$ 12,794,180,000

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TABLE II

DISPOSITION OF ECA FUNDS

April 3, 1948 - June 30, 1949		
Program Funds		$5,953,000,000 1/
Special Operations		15,124,531
Confidential Fund		3,579
Administrative Expenses		13,850,021
Total Available for Disposition		$5,981,978,131 1/
Less Amount Allotted but not obligated		-46,941,194
Total Obligated		$5,935,036,937 1/
July 1, 1949 - June 30, 1950		
Program Funds	-66 mil	$3,740,424,106 2/ 3674
Special Operations		39,500,000
Confidential Fund		50,000
Administrative Expenses		15,265,000
Total Available for Disposition		$3,795,239,106 2/
Add Previously Alloted but not obligated		+46,941,194
Total Available for Obligation		$3,842,180,300 2/
July 1, 1950 - June 30, 1951		
Program Funds	+66 mil	$3,086,700,000 3152
Special Operations		48,777,266 37.8
Confidential Fund		100,000 .05 53.
Administrative Expenses		15,500,000 15.3
Total Available for Disposition		$3,151,077,266 3205

1/ Excludes carryover of $78,821,869 to FY 1950.

2/ Excludes proposed carryover of $75,000,000 to FY 1951.

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Table III

ERP AID 1949/50 AND 1950/51

(Million dollars)

Country	1949/50 a/	1950/51 b/
Austria	166.4	130.6
Belgium-Lux. & Belg. DOT	256.9	150.0
Denmark	87.0	68.3
F. T. Trieste	13.4	10.5
France and DOT	673.1	528.0
Germany (Fed. Rep.)	736.3 c/	580.6
Greece	156.3	156.3
Iceland	7.0	5.5
Ireland	44.9	35.2
Italy	364.0	305.2
Netherlands and DOT	295.6	202.5
Netherlands	258.1	202.5
Indonesia	37.5	
Norway	90.0	70.5
Portugal	31.5	24.7
Sweden	48.0	36.0
Turkey	59.0	46.3
United Kingdom	919.8	721.5
Total Direct Country Aid	3949.2	3071.7
Reserve for Special Purposes	189.6	
Indo-China Program	5.0	15.0
Total Program Funds	4143.8	3086.7
Less GARIOA	-403.4	(not applicable)
Total ECA Program Funds	3740.4	3086.7
Non-Program Expenses	54.8	64.4
Total ECA Funds	3795.2	3151.1

a/ Source of country data: Letter from Deputy U. S. Special Representative in Europe to Secretary General of OEEC, October 7, 1949 (See OEEC document C (49) 156). Amounts for Belgium-Luxemburg and Italy are ECA estimates.

b/ Source of country data: OEEC document PR (49) 54, 1st Revision, Annex B, p. 9. Amounts, except for Greece, are about 75 percent of OEEC recommended country aid for 1949/50 prior to establishment of Reserve. For Greece, allotment is same as for 1949/50.

c/ Includes GARIOA of $403.4 million (amount in President's message January, 1950). The ECA aid is $332.9 million.

2. Recovery and Incentives

The change that is taking place in the character of the recovery problem in Western Europe is a direct consequence of the impressive progress already made toward the objectives of the European Recovery Program. This progress is already taken almost too much for granted. On the physical side alone the results of ERP, measured in terms of production, have been better even than the forecasts of optimists. Even including the relatively low German figures, a consolidated index of industrial production for the participating area as a whole shows industry operating at 118% of its 1938 level (the index number is 132 if the German figure of 83 is excluded from the average). On the agricultural side, production in the participating area is just under the pre-war average. Total consumption is generally about back to pre-war, with the exception of housing; although population increases have left per capita consumption below pre-war. Though the Marshall Plan countries are still, taken as a group, running a large deficit with the rest of the world, the gap is narrowing, it is concentrated almost entirely on the dollar area, and a few countries are coming near to overall balance. Nor can recovery progress be wholly measured in physical terms. An important accomplishment of the combined European and American efforts that flowed from General Marshall's famous speech at Harvard in the middle of 1947 has been a remarkable improvement in morale--the turning of despair into hope--which has been the biggest single factor in stopping the Communist drive in Europe.

The extraordinary recovery of European production and consumption, the great increase in intra-European trade and in exports to many outside markets, the welcome lessening of internal political and social tension, and the turning back of Communism in Western Europe have all been the indispensable pre-conditions which had to be established before the necessary structural changes in Europe's economy could begin to be made in earnest. ECA aid has played a vital role in making these achievements possible. It has frequently been emphasized, in connection with the European Recovery Program and previous aid programs, that dollar imports, although small in relation to the current total resources of the participating countries, are critical in the sense that they are essential to maintaining and increasing current levels of production, consumption and investment. Because of its slender endowment of natural resources in relation to its large population and its highly industrialized economy, Western Europe is peculiarly dependent upon imports of foodstuffs, feeding stuffs, fuels and industrial raw materials. Almost half of total imports must be paid for in dollars and almost four-fifths of the dollar imports are being financed by ECA (including GARIOA). At this mid-point of the program, it is particularly essential that this fact be kept in mind. Without ERP aid, urban food consumption would fall far below present levels. Industrial production and investment would decline precipitously and large-scale unemployment would appear in the major participating countries.

Getting production up and maintaining a sizable annual increase both in productivity and in absolute production may not be assumed to be finally accomplished until Europe is self-sustaining with adequate capital accumulation to grow. Today Europe still depends on ECA financing to maintain production. Such aid--on a decreasing basis--will still be needed next year and in 1951/52. ECA aid has in effect provided that extra margin of resources without which the participating countries could not have obtained from abroad those commodities and services on which the revival of their production, consumption and exports depends. It has given them both a breathing spell and the means of lessening internal political and social tensions while at the same time commencing the work of fundamental internal and external adjustments.

But this task is at best only half finished. During the remaining two years of the ERP the problems which face the participating countries are only slightly less urgent than those which confronted them in 1947, and are a great deal more difficult to solve. If the economy of Europe is to continue to grow in terms of production, trade, and consumption--particularly vigorous efforts will be needed during the last half of the Marshall Plan in two directions: the earning of dollars and the economic integration of Europe. A continuation of the Marshall Plan, on a declining but still substantial scale, is necessary to enable the Europeans to proceed with the immediate jobs ahead. Continued American assistance is needed to cushion the shocks and dislocations of unification, to maintain essential imports until Europe is able to sell abroad all that she needs in order to be self-supporting, and to strengthen the authority and prestige of central institutions during the period of their infancy. Continuation of ECA aid until mid-1952, therefore, is one of the essential conditions not only of progress toward unification and external balance, but also of the maintenance of recovery already achieved.

As attention is shifted from the recovery of production to the problems of trade and payments and the structural changes that are needed within the European economy, it is natural that the administration of the Marshall Plan should reflect a comparable shift in emphasis. Broadly speaking, this shift may be seen as a move away from the determination of aid allotments on the basis merely of "requirements" and the placing of greatly increased emphasis on the use of ECA aid to promote the necessary structural adjustments.

It is the ECA's intention to administer ERP aid in such a fashion as will provide the strongest incentives to participating countries to make maximum progress toward the twin goals of internal unification and external balance of payments. These incentives need to be applied in a positive fashion--that is, an increasingly large portion of the total available ECA aid should be extended only to individual countries which have actually committed themselves to undertake important steps toward these objectives and which would be unable to carry out these commitments without the increment of resources supplied by the ECA. Countries which were not willing to assume any of the risks, or make any of the internal adjustments, attendant upon the lowering of trade barriers and the freeing of intra-European payments would not be eligible to receive any of these special ECA funds.

In essence, this system of incentives should amount, over the remaining period of the ERP, to a gradual adjustment of the ERP countries to the more rigorous pressures which they will encounter after mid-1952 when ECA aid comes to an end. The participating countries should, in effect, increasingly earn their ECA dollars by undertaking more and more of those actions and adjustments required if they are ever to secure by their own efforts all the dollars they need. The recovery progress of the first two years of the ERP has been so great that the countries are now strong enough to stand a gradual acclimatization to the conditions of a world in which they will have to earn all their dollars by their own efforts and ECA-type aid will not be available.

Already during the current year a series of moves has been made in this direction. At the beginning of the year, the Administrator announced his intention to withhold a special fund which would be available to encourage the liberalization of trade and payments within Europe. The existence of this fund has operated as a spur to efforts by the OEEC as a whole, and groupings of countries within the OEEC, to develop arrangements for freeing trade and payments which would qualify for assistance from the special fund.

At the same time, in adopting the OEEC's recommended division of aid as basic planning figures for allotments of ECA funds to the individual participating countries, the Administrator made clear that these planning figures were subject to review on the basis of performance of the individual countries in line with the objectives of the ERP. Some use has already been made of this principle in connection with the effort to eliminate the practice of dual pricing in intra-European trade, and in connection with the carrying out of decisions related to the expansion of petroleum refining capacity in Europe. Moreover, the 1949/50 planning figures included in the present submission already reflect a tentative withholding of $25 million from the Italian program because Italy had not, until recent weeks, adopted a sufficiently vigorous policy of promoting public investment and loosening unduly tight restrictions on credit for private investment purposes.

In addition to these moves, the ECA has in several instances used the device of a special reserve fund to increase the interest of European countries in particular types of assistance available through ECA funds. Special funds have been set up this year for the development of strategic materials and the provision of technical assistance; while full use will not be made this year of the total funds set up for these purposes, they have greatly increased the amount of activity in these fields and give promise of increased activity during the second half of the ERP.

Provision was also made (in setting up the general reserve fund referred to above) for the financing, outside of regular country allotments, of industrial projects involving two or more participating countries, and of projects for the economic development of the overseas territories of ERP countries. In both cases, the result of setting up special funds has been a considerable increase in activity leading to the development and submission to the ECA of projects and programs in the fields concerned. A further discussion of the present plans for disposition of these special reserve funds appears in a later section of this document.

It is the intention of the ECA to continue throughout the remainder of the Program to develop effective techniques for relating United States economic assistance to performance by the participating countries in matters affecting European recovery. To this end, a sizable proportion of total 1950/51 funds will be initially withheld by the ECA. It will be allotted to the countries only as and when their performance warrants it; and some part of these funds will be used to support and help finance the operations of the proposed European Payments Union, when established, and any related central institutions formed for the purpose of working toward the objective of a single European market area. (To further these purposes, the ECA intends to request authority to transfer some part of its appropriation to a European central institution or to individual European countries in the form of dollars, rather than in the form of commodities or services.)

3. The "New Look" in Programming

A most important step in the direction of building performance incentives into the administration of ERP assistance is the new system for the development of country programs and the determination of country allotments for 1950/51. The genesis of this "new look" in programming is described by the OEEC in its Second Report, which is about to be published by the Organization, in the following terms:

> "When the Organisation came to consider last autumn the form in which national programmes for the period after 1st July, 1950, should be drawn up, and the treatment which should be accorded to them, it was recognised, in agreement with the representatives of the E.C.A., that circumstances were different from those which had applied when previous programmes were considered. It was therefore decided to change the programming practice. This greatly alters the character of the national programmes and the type of statistical forecasts which they contain, compared with the programmes for 1948-49 and 1949-50.
>
> Previously, national programmes had been drawn up to serve the purpose of determining the total amount of dollar aid which was necessary to support the European Recovery Programme during the year in question, and of recommending the distribution of aid made available by the United States. These programmes were "Requirements" programmes. The internal consistency of each was carefully examined by the Organisation, and they were checked to see whether they were mutually incompatible in any respect.
>
> In this way the economic programmes, their strengths and weaknesses, problems and goals and the policies to implement them became generally known. One result was a careful screening of the dollar element to ensure that the amount of dollar aid deemed necessary was put at a minimum level and when its distribution came to be settled that it made an effective contribution towards the objectives of the European Recovery Programme. This operation was conducted twice and it has become apparent that the pattern established in the first half of the four-year recovery programme is generally equitable. It was agreed that the resulting

pattern could be accepted. Other conditions indicated also the possibility and desirability of adopting a new approach for the last two years of the programme."

ECA representatives worked closely with the OEEC in developing the new system. It was essential, as the OEEC Report clearly states, that national programs "should reflect policies designed to take account of a smaller and declining amount of aid. The preparation of 'requirements' programmes would not necessarily have had this effect."

Accordingly, the ECA made the best aggregative judgment which was then possible of the minimum amount of US aid which the Agency believed would be required for the program year 1950/51 by the participating countries as a group to maintain the recovery progress already achieved in the first two years of the program and to make possible further progress toward the goals of the ERP. This judgment was that the figure should not exceed $3.1 million--a figure which was consistent with a rather steep reduction in US aid during each year of the four year program, and at the same time consistent with the need to maintain through the provision of adequate dollar imports the momentum of the European production and export drives. The OEEC finally adopted the figure of $3,071.7 million of program funds for fiscal year 1951. It should be noted that this figure, together with the tentative figure of $2,061 million for ERP in fiscal year 1952, would bring total aid during the life of ERP to $15 billion (excluding GARIOA for fiscal years 1948-50), as compared with the original estimate submitted to Congress of $17 billion.

After considerable discussion with the OEEC, it was agreed that the most equitable basis for making a tentative distribution of this figure among the participating countries for programming purposes would be to divide it in proportion to the OEEC's recommended division of aid for the current fiscal year. This results in a tentative aid figure for each country for the fiscal year 1951 which is 25 percent below the recommended amounts of aid against dollar deficits made by the OEEC for the fiscal year 1950. Only Greece was excepted from this otherwise uniform treatment. The OEEC agreement covered not only the basis for preparation of initial country programs, but also included the recommendation that the same proportions apply to the division among the member countries of that part of the aid made available which the ECA might assign to meet direct dollar deficits after reserving funds to promote overseas development, international projects, increased liberalization of intra-European trade and payments and other desirable common purposes.

From the US point of view, there were four main advantages of an "automatic" division of aid. <u>First</u>, through the operation of such a system there would be an automatic incentive for countries to improve their performance and thereby better their foreign exchange position (either by increasing their reserves or by increasing imports from the dollar area). Under the previous system, countries had a legitimate fear that significant improvement in their performance--for example, exceeding their export target, or squeezing their dollar imports down below programmed levels, or finding some non-ECA source of outside financing like an International Bank loan--would result in a review of their program which would show a reduced dollar deficit and therefore a reduced "need" for aid. Assurance that country aid will be distributed on a proportionate basis (to the extent it is not held out in special reserve funds) would reassure the individual countries on this score.

Second, an "automatic" division of aid would provide a practical system for confronting each country with the inexorable fact of declining US aid, and thus bring that assumption into the forefront of all economic planning and forecasting done by the Government of each participating country. Each Government would devote its energies to selecting the policies and mapping out the actions that would enable it to bring its "dollar deficit" within the confines of the declining aid figure. The energies of individual governments would thus be diverted away from preparing a case for receiving a given amount of aid, and attention would be riveted on the adjustments required in national policies and international action in order to move toward independence of extraordinary outside assistance.

Third, the ECA felt that the adoption of an "automatic" division of aid would help to free not only the individual countries but the OEEC itself from the very time-consuming operation involved in recommending a division of ECA assistance among the participating countries. The division-of-aid function was important and necessary to the OEEC at the beginning. This function gave the Organization prestige, an immediate job to do, and an excellent occasion for inquiring into national policies and programs, collecting necessary facts and figures, and recommending national or international action in line with the objectives of ERP. But now, with the OEEC devoting more and more of its time to the problems involved in liberalizing trade and payments and cushioning the resulting shocks and dislocations and in promoting increased productivity and expanded dollar exports, the problem of equitable distribution of aid has become of secondary importance, particularly since a pattern has been developed by the Organization which is reasonably acceptable to all the members.

Fourth, the new system made it possible to free the Organization and the individual countries from a considerable burden of detailed commodity forecasting, which becomes more and more difficult in a period when trade is being liberalized. In fact, if continued it would tend to force on countries a perpetuation of commodity controls which the US Government wishes to see abandoned in Europe as far as possible and which with few exceptions are no longer justified by commodity shortages. Freedom from some of the detailed commodity work would enable the OEEC and the individual countries to concentrate more on analysis of the use of resources ("national accounts analysis") and on preparing in greater detail material related to the balance of payments.

This advantage was recognized by the OEEC as well, which puts it this way in its Second Report.

> "Finally, it was most desirable that the Organization should devote its major efforts to dealing with issues fundamental to the basic problems of viability and closer economic integration, none of which can be

fully treated within the framework of national programmes. Since it was now possible to avoid the preparation and screening of programmes in great detail, the efforts of governments and the Organization could be concentrated on these basic problems."

In line with these principles the OEEC, in agreement with ECA, instructed the participating countries to prepare their 1950/51 programs on the basis of assumptions which are set forth in detail in the Second Report of OEEC as follows:

"The first assumption was that the programmes would be drawn up within the limits of dollar aid equal to (except in the case of Greece)1/, for 1950-51 2/, 75 percent and, for 1951-52, 50 percent of the amount of E.R.P. dollar aid recommended by the Organisation for the fiscal year 1949-50 3/. Each country would therefore be able to make a working assumption as to the amount of dollar aid it could expect and to make its plans accordingly. As a means of making the assumed amount of aid more effective, it was considered extremely important that more flexibility should be allowed in the use of E.R.P. dollars eventually appropriated than had prevailed in the past. The total amount of assistance was assumed to be $3,072 million for 1950-51 and $2,061 million for 1951-52 compared with $4,202 million for 1949-50. These figures include the United States GARIOA appropriation for Germany.

1/ It was recognised that Greece, in which peaceful conditions have only recently been restored, has been unable to achieve the same momentum of recovery as other participants. She was therefore asked to submit a programme for 1950-51 based on an amount of dollar aid no larger than that recommended for 1949-50, and a programme for 1951-52 based on 75 percent of that amount.

2/ The proportions established between the assumed amounts for 1950-51 will set the pattern for the distribution of that portion of the aid eventually appropriated by Congress for 1950-51 which would be allocated on a country basis. It has not yet been decided whether this procedure will apply to the eventual distribution of the appropriation for 1951-52.

3/ For Belgium and Luxemburg the amount of aid to meet the direct dollar deficit in 1949-50 was taken as $200 million. In the case of Germany, the amount of aid for 1949-50 to be taken as a basis was the total of aid recommended by the OEEC for the Bizone and for FZOG and of a GARIOA allocation of $426 million assumed by OEEC when adopting its recommendation.

A second assumption relates to 'the level of intra-European assistance. Just as it was necessary for all participants to plan for the inevitable rapid decline in the amount of dollar aid, so countries, which, in their intra-European currency relationships, are in longer term disequilibrium had to plan to dispense with the special grants and credits which have supported them.

Countries (other than Greece)1/ were asked to assume that no more special resources would be available in 1950-51 to meet intra-European deficits than 60 percent of the net drawing rights established for 1949-50, and that, in 1951-52, special resources up to 40 percent of the 1949-50 net drawing rights would be available.

Crediter countries had no limit placed upon the extent to which they could programme for a surplus, but they were not to assume that they could earn gold or dollars from other participants as a consequence of that surplus. These assumptions express the need for incentives to debtor and creditor countries to devise plans in keeping with the longer term possibilities of special outside assistance. Thus, although these assumptions do not in any way prejudice the future of the intra-European Payments Agreement, and do not constitute any commitment regarding the resources available under such an agreement, their general character is consistent with the principles of the proposed new payments scheme outlined in Part III, Chapter 23."

Whether the figure of $3,071.7 million (excluding Indo-China) for total country aid for the Fiscal Year 1951 accurately reflects the degree of improvement which can be foreseen between this year and next can only be judged from a study of the national programs built around the aid figures which result from the application of the above assumptions. Such an analysis is presented in a subsequent section.

1/ In view of Greece's special position, she was asked to assume that in 1950-51 intra-European Assistance would not be available in excess of her net drawing rights under the Payments Agreement for 1949-50. In 1951-52 the amount to be assumed as available was 60 percent of the 1949-50 figure.

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ECONOMIC COOPERATION ADMINISTRATION

Washington, D. C.

Explanation and Justification

of

Appropriation Request for

1950/51

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4. <u>The Use of Funds in 1949/50</u>

As indicated in the introductory section of this justification, two major judgments must determine the performance of the ECA's request for $3,076,077,266 of new funds for the fiscal year 1951. The first concerns the proposed use of funds in the current fiscal year and the extent to which, if any, presently available funds can be counted upon to cover the requirements of the following fiscal year. The second major judgment concerns the ECA's analysis of the European balance of payments in the fiscal year 1951 itself. It is convenient to deal with the two judgments in this order, to discuss the proposed use of funds in the current fiscal year before proceeding with the analysis of probable needs and possible earnings in 1950/51.

The balance of payments and import tables for 1949/50 that are presented herewith contain up-to-date estimates of the magnitudes relevant to a judgment concerning the need for funds in the current fiscal year. No attempt will be made to present a systematic justification of these results. Rather, the estimates for 1949/50 should be regarded as a progress report on a program already largely determined and in the process of execution. Nevertheless, certain specific comments are in order.

First, it may be noted, that the reappraisal at this time of probable dollar receipts and dollar expenditures of the participating countries has lead to certain changes in the estimates of dollar aid for the current year and has also yielded a somewhat more optimistic picture than the estimates prepared some eight months ago. For most countries, the estimates of dollar aid for the current year that are presented herewith are based on recommendations arrived at by the OEEC in September 1949. These estimates were so constructed by the OEEC that their total was approximately equal to the whole amount of program funds expected to be available for the year. The ECA reduced all of them by an even 4.385 percent so that the sum of the estimates of direct country aid would fall short of the total available program funds by approximately $150 million. The purpose of this action was to constitute the reserve fund referred to above. In the current re-appraisal of national programs, the ECA has further altered its estimates of dollar aid to be provided to two countries: Belgium and Italy.

In the case of Belgium, the estimate of aid for the year was reduced by $55.6 million. The amount of dollar aid to be received by Belgium from the ECA is determined, not by Belgium's anticipated dollar deficit, but by the size of Belgium's expected surplus in its trade with the other participating countries. Since the devaluations of September 1949, European trade generally has been far better balanced than previously. In particular, the large chronic surplus which characterized Belgium's trade with the rest of Europe prior to last September has been greatly reduced in recent months. In line with a consequently reduced estimate of the Belgian trade surplus for the year, the ECA is now allowing for an extension of smaller drawing rights by Belgium to other participating countries and the provision of a similarly smaller sum of conditional dollar aid to Belgium.

In the case of Italy, the estimate of aid for the current year has been tentatively reduced by $25.1 million. The reason is the long delay in the achievement of a high rate of capital formation in Italy. This delay undoubtedly represents a setback to the recovery program in that country. At the same time, it reduces Italy's current need for dollars. Since the beginning of the current fiscal year, it has been the announced policy of the ECA to withhold dollar assistance wherever an over-deflationary situation within a participating country impedes its recovery and reduces its rate of absorption of dollar imports. Accordingly it seems probable that the amount of direct country aid to Italy will, on the basis of this policy, fall short of the earlier estimate based on the recommendation of the OEEC.

The second general comment that may be made on the figures presented herewith for 1949/50 is that the reserve position of the European countries now seems likely to show a very slight improvement during the year whereas, eight months ago, it appeared that the European countries would draw down their reserves by something of the order of $200 million. This more optimistic prospect is probably related closely to the devaluations that occurred last September. In the case of Great Britain, the more optimistic picture for the current fiscal year is merely the obverse of the run on sterling that occurred during the fourth quarter of the fiscal year 1949. For the other countries as well, the devaluation improved their trading position even though they had suffered no such speculative loss of reserves as had the British Treasury in the months immediately preceding this major change of policy. It is worthy of note that, although the picture is today far more optimistic than eight months ago, it is still possible to foresee only a nominal increase in reserves for the group of countries as a whole. Moreover, in at least two cases, the projected improvement has a special explanation. In the case of Belgium it results from the fact that dollar aid is determined by the country's foreign exchange earnings in its European trade; not by its "needs". In the case of France the estimate of a sizeable increase in reserves reflects the result of a loan from the Federal Reserve Bank of New York for which a part of the French gold reserve is pledged as collateral. Clearly, this increase in reserves is not real. Indeed, more sophisticated accounting would show little or no increase in this case. Aside from these two countries, only the Netherlands has the expectation of an increase during the current year whereas most of the other countries must expect some further decline.

Aside from these general comments, what undoubtedly requires the most careful explanation in a justification of the proposed use of funds in the current year is the reserve for special purposes of $189.6 million. This is not a reserve for contingencies. As described above, it was deliberately created (to the extent of $150 million) by an across-the-board cuts in country aid programs for the year. The setting up of this reserve was the first step taken by the ECA to change from the allocation of aid on the basis of needs to increased emphasis upon the encouragement of specific uses of economic resources, as described above. The particular purposes for which the reserve was constituted were officially described in a letter dated August 31, 1949 from the Deputy Special Representative to the Secretary General of OEEC, as follows:

"The broad objective of the general reserve fund is to permit the financing of activities which are expected to make an exceptionally significant contribution toward European economic recovery but which cannot be incorporated at this stage into the various national programs toward which the bulk of ERP aid is being allocated. While it is impossible to specify in advance all the types of uses for which it may become desirable to employ the general reserve fund, three such uses are presently envisaged, namely, (a) to encourage the further development of overseas territories, (b) to finance investment projects of special international significance, and (c) to promote the most rapid possible liberalization of intra-European trade and payments by providing safeguards against certain unforeseeable risks involved in measures of liberalization."

The reserve fund is now carried on the books at a figure somewhat larger than that originally contemplated as a result of a) the accrual of certain funds to the Administration and b) a downward revision in the estimate of funds required for special operations, especially technical assistance projects and strategic materials purchases. Practically all of the anticipated savings through reductions in dollar aid to Belgium and Italy have been included in the estimated carryover of funds to count against the requirements of the next fiscal year. Principal uses of which it is expected that the reserve fund will be put are the following:

Overseas Development Projects	$40,000,000
International Power Projects	14,500,000
Replacement of shortfall in GARIOA Funds	4,000,000
Allocations to promote Trade Liberalization	126,100,000
TOTAL	$184,600,000

These various uses are discussed in the following sub-sections:

Overseas Development

Up to January 28, 1950, the OSR has received firm project submissions or indications regarding forthcoming projects against the overseas development fund for the fiscal year 1950 totalling an estimated $31.6, distributed as follows:

United Kingdom	$11.6 million
France	10.0 "
Belgium	3.7 "
The Netherlands	2.0 "
Portugal	4.3 "

The United Kingdom total will probably reach $19 million. This would raise the total from $31.6 million to approximately $39 million.

Examination of the projects received to date indicates that they are generally eligible for ECA assistance and it seems probable that, as in the case of the British submissions, there may be some additions by the other metropolitan powers to their initial requests.

Prior to receipt of the actual submissions and careful project-by-project analysis, it is not possible to predict with certainty the amount that could wisely be obligated for overseas development during the current fiscal year. In light of the information summarized above, however, it appears that ECA assistance needed in connection with sound development projects, which could be obligated during the current fiscal year, may run up to about $40 million. This is based on an assumption that projects weeded out because they do not meet ECA criteria, together with projects which may require such time for development that funds cannot be obligated before June 1950, will probably be offset by additional requests on which funds can be committed during the current year. It is also based on the correct assumption that it is ECA policy to encourage a vigorous approach by the metropolitan countries to the problem of accelerating development in the DOT's.

It has been roughly estimated that the essential dollar cost of these DOT development projects will generally comprise only some 10 to 15 percent of the total cost, the remainder being covered by local or metropolitan funds or by other non-dollar funds. Analyses of the dollar and local currency costs of certain projects already submitted show the following results:

A U.K. submission covering 29 projects involved	$7.6 million
(The total additional sterling costs are estimated at an equivalent of $79 million)	
U.S. road building equipment initially required for a road development project in the Congo is estimated at	$2.6 "
(The total cost of this over a 10-year period is estimated at $120 million in local currencies)	

The estimates of dollars that can be wisely committed during 1949/50 refer only to those which would be derived from the reserve fund and do not include possible expenditures under technical assistance or strategic materials programs or from regular program funds. In this connection it should be mentioned that the proposed African transport survey, the contemplated African soils survey and other projects of this kind will have their dollar expenditures (to the extent that these are made available by the ECA) met largely out of technical assistance funds.

International Projects

The projects which qualify as "international projects", under the terms of the letter quoted above, have to do with the electric power industry. Projects are under consideration for thermal, hydro and transmission developments.

The separate national power programs presently underway fall short of providing full power requirements of the countries concerned. New thermal power plants would provide the quickest means of adding increased generating capacity. However, certain hydro plants are also included in plans now being developed so situated as to best conform to overall European requirements.

The international projects for thermal power development now under consideration total 700 MW, while the proposed hydro developments total 300 MW--1000 MW in all. The total dollar equivalent for the entire program is estimated at $164 million of which $110.5 million is the estimated ECA dollar requirement.

While the total program of 1000 MW is considered as being possible of accomplishment, it is necessary to face the fact that many of the projects in question will not be sufficiently developed to require obligation of funds from the 1949/50 appropriation. It therefore appears that not more than 1/2 of the thermal development of 700 MW and 1/3 of the hydro program of 300 MW can reasonably be considered for financing from 49/50 funds. With this in mind, a total of $9 million for thermal development and $5.5 million for hydro development has been tentatively earmarked for 1949/50 financing, making a total of $14.5 million.

Liberalization of Trade

The use of funds from the central reserve to promote trade liberalization is contemplated in three types of situations. First, in a number of countries the effective obstacle to the removal of restrictions on imports is the pressure of powerful protectionist groups within the economy. Under certain circumstances, an intelligent approach to trade liberalization is by way of a program sponsored by the government in question to provide transitional economic relief to groups or localities severely affected by the removal of restrictions. The ECA entertains requests from national governments for additional dollar aid to support such programs. Although the immediate need is usually for the local currency rather than for dollars, the availability of dollars greatly increases the incentive effect of the offer and the expenditure of additional local currency funds in any country is apt to be translated, at least in part, into increased imports.

Second, in other countries the major obstacle to trade liberalization is a fear of the loss of monetary reserves. An undertaking by the ECA to provide additional financial support to a country if this fear turns out to be real may make a decisive difference in the willingness of the government to take the risks inherent in the opening of its doors to imports from its neighbors.

Third, perhaps the most promising single use contemplated for ECA funds, is in support of a European Payments Union including all or most of the participating countries.

As yet it is possible to give only a rough indication of the amounts of funds likely to be used during the current fiscal year for these several purposes. Three countries seem most likely to be candidates for special aid in support of particular groups adversely affected by the removal of restrictions. The countries and very roughly estimated amounts are as follows:

Norway		$15,000,000
Denmark		$10,000,000
France		$20,000,000
	TOTAL	$45,000,000

The one country likely to need additional dollar support during the current year to offset a loss of reserves is the Federal Republic of Germany. The German Government has taken the lead in a courageous program of liberalizing imports. On a conservative basis, $15 million should be allowed for additional support in this case.

It is quite impossible to give any independent estimate of the sum likely to be needed to permit the establishment of a European Payments Union or to support such regional groups as the proposed FINEBEL group, consisting of Italy, France, and the Benelux countries. At the present, time it appears likely that the FINABEL arrangement will come into existence in the near future. If it does, it may well be worthy of modest financial support by the ECA. It does not appear likely that a more inclusive European Payments Union will actually come into operation much before the end of the current fiscal year. The possibility that a new Payments Union can be created soon will be considerably lessened, however, if the ECA does not have funds which could be used for its initial support. It is expected that, in the next fiscal year, a very considerable sum will be needed for this purpose. In the current year, at least $50 million should be available. It should be clearly understood that this sum may not in the end prove to have been needed. The rate of progress toward more effective monetary arrangements in

Europe is far too dependent upon political developments to be predictable with any accuracy. It is believed essential, however, for the purpose of the ERP that the Administrator be in a position to dispose of a moderate sum of this general order of magnitude for the purpose of encouraging and supporting such a development.

Relation of Special Aid to Balance of Payments

It has been pointed out above that, on present estimates, the reserves of the European countries will increase slightly during the current year if they receive $3,949.2 million of country aid. From this it might appear that the actual expenditure of the ECA reserve fund, however laudible the purposes, would go to swell European monetary reserves still further. This is true in part, but only in part, and therefore is deserving of a further word of comment.

To begin with, no part of the $54.5 million proposed to be used for overseas territories development or for international projects would find its way into increased monetary reserves. Dollars would be used for these purposes only to cover dollar outlays. Thus, the additional dollar resources made available would be matched by expenditures not allowed for in the balance of payments estimates submitted herewith.

Of the $126 million proposed to be used to foster trade liberalization, a part would undoubtedly find its way into monetary reserves. But a part would be absorbed in dollar outlays made necessary by trade liberalization. For instance, the Norwegian Government's proposed program for the relief of special groups would involve the provision of new industrial facilities to employed labor rendered surplus in high cost industries. Dollars would be used almost exclusively for extra dollar expenses. In other countries, the connection might be less direct but, as noted above, an increase in expenditures within the country is certain to cause some increase in the demand for dollar imports. It seems likely, on balance, that no more than half of the amount of the reserve could find its way into increased monetary reserves even if it were all used during the current year. Such a development would result in a total increase in reserves for the whole group of countries of only about $25 million during the year, provided the misleading increase in French reserves is disregarded for reasons discussed above. It should be emphasized that, although these special uses of ECA funds cannot be forecast with as much precision as direct country aid, they probably represent the most truly constructive activities planned by the ECA. Some further saving from the figures here given may well turn out to be possible at the end of the year. But it would be a serious limitation on the effectiveness of the program if the availability of these funds were further forecast at this time.

5. Programs for Country Aid in 1950/51

The preceding section was concerned with the first of the two major judgments involved in pressing the ECA's appropriation request, that is, the judgment as to the proposed use of funds in the current fiscal year. This section is concerned primarily with the requirements for dollar aid in the fiscal year 1951. In this section, the essential expenditures of the European countries and their prospects for dollar earnings are discussed in terms of the whole group of countries rather than for each country individually. The basic decision as to the amount by which the aid to be furnished in the fiscal year 1951 could safely be reduced below the level of the current year was based upon the aggregative analysis below.

It is the judgment of the ECA, based on the detailed analysis summarized in this submission, that dollar earnings by the participating countries as a group cannot realistically be forecast at a figure higher than that shown in the attached tables and that, in the aggregate, the needs for dollar expenditure, primarily European imports which must be paid for with dollars, cannot without damage be compressed significantly further than has been done in projections shown in the tables. The remaining portion of this submission is devoted to an explanation of the basis for this judgment.

The European Recovery program for 1949/50 calls for $3,949.2 million of direct and conditional aid. In 1950/51 the total amount requested for all country-aid programs (including incentive programs) is $3,071.7 million, or $877.5 million less than has been scheduled so far for allotment of direct and conditional aid alone in 1949/50.

This reduction in ECA aid is made possible by increased dollar earnings and by cutting down on purchases that require dollar payments. The sections which follow deal with:

(a) Increased earnings of $276.5 million from exports, shipping, tourism, migrant remittances, and interest and dividends.

(b) Dollar savings of $578.1 million on imports, shipping, tourism, migrant remittances, and interest and dividends.

(c) Projected exports to dollar areas for 1950/51.

(d) An analysis of the over-all current account and capital account balances.

(e) The means of financing the net dollar balance available in 1949/50 and 1950/51, and ECA policy with respect to reserves.

(f) The import program for 1950/51 and the effect on European recovery of a further decrease in dollar imports than has been projected.

a. Major sources of dollar earnings:

Estimates of gross dollar earnings are available for all participating countries with respect to exports, shipping, tourism, migrant remittances, and interest and dividends. "Other" invisible earnings and payments (including the British oil account) are available only on a net basis and are discussed in section (d) below.

The change in projected gross dollar earnings for all 16 countries in combination is shown below for each of the categories for which gross earnings are available:

Earnings from:	1949/50	1950/51	Improvement
Exports	$1,461.1	$1,678.6	+217.5
Shipping, etc.	463.5	475.4	+ 11.9
Tourism	196.4	241.2	+ 44.8
Migrant remittances	74.4	77.1	+ 2.7
Interest and dividends	195.1	194.7	-0.4
	$2,390.5	$2,667.0	+276.5

The first three categories--exports, shipping, tourism--are those in which the efforts of Europeans to help themselves can bear the most fruit. Exports are discussed in greater detail in section (c) below. The 23 percent increase in earnings from tourists will be the result partly of promotional efforts by the Europeans and partly of investments in facilities for tourists, made in the earlier years of ERP. The increase in shipping earnings is comparatively small. The effectiveness of the improved fleet of European countries manifests itself chiefly in decreased dollar payments for shipping shown below. ECA anticipates a small net increase in migrant remittances, though there is likely to be a decrease in such remittances to Germany as conditions there become less desperate.

Interest and dividend receipts will not change significantly. The projected total of $195.1 million earned in dollars from interest and dividends in 1949/50 comes largely ($107.5 million) from investments in the United States. These in turn are largely British, Dutch and Belgina. The Department of Commerce estimates United States payments of interest and dividends to ERP metropolitan areas of $110 million in 1948. These countries appear therefore to have estimated investment income rather completely. (It may be noted in passing that each of the PC's pays more to the United States in interest and dividends than it receives.)

b. Major Sources of Dollar Savings:

While dollar earnings are increasing, the programs call for decreased expenditures for goods and services that must be paid for in dollars. The program developed by ECA calls for dollar payments in the aggregate as follows:

Payments for	1949/50	1950/51	Dollar Saving	
Imports	$4,966.5	$4,431.0	+535.5	
Shipping, etc.	709.8	665.5	+ 44.3	
Tourism	51.2	61.5		-10.3
Migrant remittances	10.0	9.9	+ 0.1	
Interest and dividends	256.2	247.7	+ 8.5	
	$5,993.7	$5,414.6	+588.4	-10.3
			$578.1	

The most impressive change is the decrease in dollar imports amounting to about 11 percent. This is discussed below in section (f). Dollar freight payments will be reduced about $44.3 million. In conjunction with increased dollar earnings for shipping this means that the dollar deficit in shipping accounts for Western European countries will be reduced by $56.2 million dollars, or by about 23 percent.

Interest and dividend payments in dollars by Europe decrease as debt is retired. Migrant remittances from Europe to the Western Hemisphere are not important and will not change significantly.

Tourism is the only category in the current account that will require more dollars in 1950/51 than in 1949/50. This increase of $10.3 million dollars is necessary to finance larger commercial staffs in the United States and trips by European businessmen to the United States and Canada. It may be regarded as an offset to the $217.5 million increase of exports to dollar markets shown above.

6. Exports to Earn Dollars

A key question that must be answered in connection with this budget request is whether the ERP countries are doing as much as they may reasonably be expected to do to earn dollars. And this in fact amerges in terms of the question: Is the ECA export program for 1950/51 adequate?

The projected dollar exports are as follows:

To:	1949/50	1950/51
U.S.A.	$ 752.0	$ 869.4
Canada	340.8	442.1
Other (Chiefly Latin America)	368.3	367.1
	$1461.1	$1678.6

The ECA has treated all exports to Canada and the United States as dollar exports. Part of the trade with Latin America and with other parts of the world is conducted in terms of dollars. The total for this trade shown above does not include the settlement of gold and dollar balances arising under bilateral agreements. The change in settlement payments is discussed in section (d) below in connection with the analysis of net capital operations.

It follows that one should look only to the United States and Canadian accounts for increases in "dollar exports." Increased exports to Latin America will show up in the figures for total exports to Latin America in all currencies.

In order to test the adequacy of the program for exports that earn or save dollars for Europe, the ECA has therefore examined the program for all exports to the Western Hemisphere. Since the 1949/50 figures are themselves projections, it is more meaningful to compare 1950/51 projections with the actual record for 1948.

To:	1948	1949/50	1950/51
U.S.A. $	$ 828.9	$ 752.0	$ 869.4
Canada $	341.6	340.8	442.1
Latin America (All currencies)	1,143.8	1,201.5	1,335.9
	$2,314.3	$2,294.3	$2,647.4

The figures for 1948 are the historical record of shipments submitted by the countries. These figures are identical with those submitted on a payments basis for all countries except France and the United Kingdom. For these two countries' payments, especially from the United States, were larger than shipments. There is no reason to question the reality of this difference; but the selection of the shipments basis, which is the most easily understood and which seems to be used in all cases for 1950/51, gives a picture of higher exports to the United States in 1950/51 than in 1948, whereas the balance of payments figures for 1948 ($875.6 million) would show unchanged dollar earnings for 1950/51. In the case of Canada, shipments by the PC's in 1948 exceeded payments by only $0.7 million, while in Latin America export payments in 1948 were less than shipments by $7.2 millions.

One may therefore say that exports to the Western Hemisphere are planned to rise from $2,314 million (on a shipments basis) or $2,354 million (on a payments basis) in 1948 to $2,647 million in 1950/51 (essentially on either a payments or shipments basis).

The projection for 1949/50 (as revised by the ECA from the country submissions) fits reasonably well with the historical pattern of trade through November, 1949.

Thus between 1948 and 1950/51 there will be relatively little change in the dollar value of total exports to the United States, nearly a 30 percent rise in exports to Canada and an 18 percent rise in exports to Latin America (whether paid for in dollars or other currencies).

The table suggests three questions: Is the total for 1950/51 as high as it might reasonably be expected to be? Why do exports to Canada and Latin America grow so much more rapidly than those to the United States? Why are projected exports to the United States in 1950/51 either the same as in 1948 or only slightly higher than those achieved in 1948 and does this indicate that European recovery has bogged down or that it is really moving forward?

The question as to the adequacy of the projected level of exports in 1950/51 must be answered separately for each area. An analysis of the Latin American balance of payments indicates that European exports to that area in 1950/51 could only be substantially higher if Europe also imported about as much more from Latin America as it expects to export. The Canadian market might absorb another ten or twenty million dollars worth of goods from the ERP countries in 1950/51; but the projected increase is large in any event, the indicated possible increase has not been proved by detailed comparison with ERP submissions and would not significantly affect the total of dollar trade in any event.

Testing the Estimates for Exports to the United States in 1950/51:

The real question is whether Europe could sell more to the United States. The projected total is the result of two completely independent studies that were later merged. The first of these involved an examination of the programs submitted by the countries. The totals of the national submissions for 1950/51 and the recommended figures are as follows (in millions):

	Submission	ECA Program
Austria	$ 18.1	$ 15.0
Belgium	95.7	102.0
Denmark	24.2	23.3
F. T. Trieste	0.04	0.2
France	100.0	100.0
Germany (Fed. Rep.)	75.0	70.7
Greece	26.2	26.1
Iceland	2.0	2.4
Ireland	1.5	1.6
Italy	62.0	66.4
Netherlands	39.5	41.0
Norway	24.8	25.0
Portugal	14.7	13.4
Sweden	54.0	64.6
Turkey	41.1	52.7
United Kingdom	250.1	265.0
	$828.9	$869.4

The national submissions on a shipments basis are the same as the figures on a payments basis except for the United Kingdom and the Netherlands. The United Kingdom did not estimate payments for exports to the United States separately from exports to the Western Hemisphere. The Netherlands figure is taken from the Balance of Payments submission; the estimate on a shipments basis was $40.3 million.

In several instances - notably Austria and Germany - the estimated exports to the United States exceeded the apparent possibilities of the market. By and large, however, a study of the United States market showed that most countries could reach and some could exceed their goals, notably Belgium, Sweden and the United Kingdom.

An Independent Estimate of Export Possibilities:

The second study of exports to the United States in 1950/51 originated quite independently of the national submissions. The ground-work for this study was laid in a report prepared on November 5, 1949, on Prewar and Post-war United States Imports from ERP Countries as Related to the Possibility of Increased Dollar Earnings. For this report, United States trade statistics were examined to discover every commodity that had been sold by any one ERP country to the United States in an amount of either $100,000 in 1937 or $300,000 in 1948. 47 summary tables were prepared for leading commodities (like whiskey) or commodity groups (like hides and skins) covering the years 1936-38 and 1947, 1948 by quarters and the first three quarters of 1949. These tables embraced more than 80 percent of United States imports from the metropolitan ERP countries in 1948. For each one of these commodities an estimate was made for imports in 1950/51 under favorable conditions, after consulting at length at least two experts in other government agencies for each commodity. The preliminary phase of this work was completed by making rough projections on the basis of historical trends for the miscellaneous 20 percent of the trade not otherwise covered.

On the basis of this study a report was made on January 20 that there seemed to be no basis in United States trade statistics or trade opinion for estimating imports of more than $840 million for 1950/51 and that $830 million was likely to be a better figure.

Adjustments Required to Compare OEEC and ECA Figures for Exports with United States Import Statistics:

The agreement of this preliminary figure for total exports to the

United States in 1950/51 with the European submission was more apparent than real. Both needed to be adjusted before they may be compared. The submission and the ECA program figures above both contain $10.5 million for exports by Denmark "to the United States" which are in fact exports to United States troops in Germany. These need to be deducted from the submission and program figures to become comparable with United States trade statistics. On the other hand, the submission needs to be raised $19.1 million to become comparable with United States import statistics because this part of the value of nickel and ferromanganese processed in Norway and of tin processed in the United Kingdom and the Netherlands is not included in exports. The goods are processed on toll and the value of the raw material appears in neither the imports nor exports submitted nor in the ECA revised balance of payments tables.

On the other hand "United States imports for consumption" contain two items in 1948 that were carried forward into the original estimate for possible United States imports in 1950/51: lend-lease ships returned ($10.2 million) and household and personal effects of migrants ($6.9 million).

For comparative purposes the PC submission becomes $828.9 - $10.5 + 19.1 = $838.5 million, while the original independent estimate submitted in ECA becomes $830 - $17 = $813 million.

<u>The ECA Estimate for Exports in 1950/51</u>: This type of comparison only became possible, however, after the two separate lines of investigation were merged. In some instances the projections made from United States statistics alone were lowered in the light of facts developed by

study of the European program. Generally, however, the study of European submissions had revealed excessive optimism with respect to certain exports without revealing other places where the Europeans had underestimated the market because they did not submit any detail on small items. The final ECA estimate--particularly for categories lumped in the submissions as "miscellaneous"--rests squarely upon a line-by-line analysis of United States trade statistics.

The net result of the joint effort was to develop identified prospects for exports of about $854 million (plus personal effects) in terms of United States imports for consumption or of about $845 on the basis of OEEC statistical classifications.

This appeared to be the maximum that could be developed after considering every sub-group of United States import statistics. It would be easy to find experts who would feel each line is over-estimated. It would be hard to find experts who would wish to raise any line.

This process of estimation, however, has two drawbacks. Using historical data it is impossible to get away from the data on low imports in the second and third quarter of 1949. This sobering reality tended to dampen the estimates of even professional optimists. More importantly, perhaps, this method of estimation neglects the new product to some extent. Therefore, as a final gesture of faith in the United States market for European products the ECA added about $24 million to provide for sales that may develop in ways that cannot be revealed by statistics of the past.

Thus the estimate of \$869.4 million of PC exports to the United States (about \$878 million plus personal effects in United States statistics) is the most that can reasonably be estimated for 1950/51. It is based on predictions from United States trade statistics under assumptions that are favorable to large exports to the United States. It combines individually reasonable but optimistic forecasts. This would be likely to result in a slightly over-optimistic total. Even so, the estimate has been weighted with an additional allowance for specially favorable but unpredictable developments.

Relative Growth of Exports to United States and Other Areas: The more rapid growth of exports to Canada and Latin American than to the United States is to be explained partly in terms of economic forces and partly of administrative practice. Both Canada and Latin America discriminate against United States exports and favor European sources. Even apart from such discrimination, however, the initial growth of exports by PC's should be greater to these areas than to the United States. British exporters favor sales efforts in Canada because they have much less fear of losing that market than of losing the United States market through adverse tariff legislation. Beyond this is the fact that the United States took over the European export business to Canada and Latin America during the war. If European goods can compete in the United States market over a tariff, they compete even more strongly with United States exports in third markets. Until this area of competition has been exhausted, one should expect more rapid growth of European trade in third markets than in the United States. The historical record and projections for 1950/51 do not mean that Europe is not being thought of as an effective competitor in the United States market.

<u>Recovery of Exports to United States between 1948 and 1950/51</u>: PC exports to the United States in 1950/51 will be greater in volume than in 1948 and will have a greater dollar value. Recorded imports for consumption by the United States from all ERP countries (except Switzerland) were $867.9 million in 1948. From this is to be deducted $10.2 million for the value of returned lend-lease ships - an item that cannot possibly affect European earnings in 1950/51 - and $6.9 million of household goods recorded as imports. Thus the question is whether in 1950/51 the United States will import more than the $850.8 million of European merchandise (and of returned U.S. merchandise and containers that normally result in a credit) imported in 1948.

The projected total of $869.4 million of exports to the United States in 1950/51, for reasons explained above, would produce a figure of $878.0 million in United States import statistics.

Between 1948 and the end of 1949 United States prices have declined 8 percent. Thus merchandise that sold in 1948 for $850.8 million would bring about $783 million in today's market.

The projection of $878 million for 1950/51 (in terms of United States trade statistics) was made at prices prevailing in the fourth quarter of 1949 or trending down. Thus total volume of PC exports to the United States is expected to be about 12 percent larger than it was in 1948.

Fundamentally, however, the assumed achievement is far greater than this overall showing would seem to indicate. 1948 was still a year of shortages in the American market. Scrap metal prices were fantastically high. There was a "grey market" in iron and steel, autos, paper and a number of other products. Out of the total of about $850 million of European merchandise bought by the United States in 1948 no less than $200 million represented trade in 9 commodities or commodity groups: brass scrap, iron and steel scrap, aluminum and manufactures (largely scrap), lead and manufactures (scrap and metal), autos, tractors, woodpulp, newsprint and steel mill products (except scrap). In the fourth quarter of 1948 business in these commodities averaged over $20 million per month and in January and February, 1949, it was still above $22 million.

It was the drying up of this business that accounted for most of the slump in European trade with the United States in 1949. Imports of these commodities dropped to $7.5 million in April and reached a low of $3.1 million in September.

This kind of trade is projected at about $7.25 million per month in 1950/51. This estimate was prepared only after extensive consultation. Most experts would regard it as high.

In contrast, the basic trade of Europe (exclusive of these 9 commodities) averaged $53.5 million per month in 1948, still averaged $48.1 million in the low second quarter of 1949, and has averaged about $59.5 in September, October and November, 1949. This level probably reflects seasonal buying for the Christmas trade as well as basic strength. It is projected at an average of about $66 million for 1950/51. Considering price changes since 1948 this means a 34 percent increase in volume between 1948 and 1950/51 in all the range of goods embraced in our basic trade excluding the 9 items that are bound to lose part of their 1948 market in the United States.

The rate of recovery of exports to the United States projected for 1950/51 is consistent with the objectives of the ERP. It represents a trend of growth from the good year of 1948 through the bad year of 1949 to January, 1951, of about 12 percent per year compounded. Alternatively it may be thought of as involving a 30 percent recovery in basic exports by July 1, 1950, from the low five months centering about July 1, 1949, and a 20 percent growth factor during 1950/51.

d. Analysis of the Overall Current Account and Capital Account Balances:

The major items in the current account, all of which are available on a gross basis, were discussed in sections (a) and (b) above. They indicate:

	1949/50	1950/51
Gross earnings on exports, etc.	$2,390.5	$2,667.0
" expend. " imports, etc.	5,993.7	5,414.6

To complete the current account analysis it is necessary to consider also two items that are available only on a net basis for the countries in combination: net invisibles (other than shipping, tourism, migrant remittances and interest and dividends) and the net current and capital account for the French, Dutch, Belgian and Portuguese DOT's. (British DOT's are netted in the capital account.)

"Other invisibles": In the current account of every nation there are a variety of "other invisible" transactions (in addition to shipping etc.) that are usually small. Under current trading conditions in Europe, European countries use this account not only for such things as motion picture rentals and insurance, but also for commission earnings arising from the processing for re-export of raw materials that would normally be reported as imports but which are now excluded from both imports and exports. This item has been unravelled for major items, like Norwegian processing of nickle and ferromanganese and United Kingdom and Netherlands processing of tin.

The "other invisible" account for all countries in combination calls for net dollar payments of $172.9 million in 1949/50 and $202.9 million in 1950/51. This represents a $30 million net demand for additional dollar payments of which the United Kingdom accounts for $8 million. The United Kingdom carries its oil account in this category of invisibles which is reported by the United Kingdom only on a net basis. The detail is highly classified..

Other countries estimate both their gross receipts and payments for "other invisibles". In order to complete the record the figure for countries other than the United Kingdom are projected as follows:

	1949/50	1950/51
Receipts	$139.0	$126.6
Payments	167.9	177.5
Net "other invisibles"	$-28.9	$-50.9

While there are small changes in estimated receipts and payments for many countries, the entire worsening of the aggregate for all countries arises from a non-recurring change in both the receipts and payments of a single country.

DOT's (other than United Kingdom): Finally, in analyzing the changes in the current account between 1949/50 and 1950/51, it is estimated that the French, Dutch, Belgian and Portuguese DOT's in combination will require $58.1 million less net dollar financing in 1950/51 than in 1949/50. Of this amount $37.5 million reflects merely the disappearance of Indonesia from the Netherlands' DOT account. There is, however, a reduction of the net dollar deficit of the other DOT's of $20.6 million to a net total of $83.0 million in 1950/51.

Summary of changes in current account: The changes on current dollar account described in sections (a) and (b) and in this section on other invisibles and the DOT's may be summarized as follows for the Metropolitan PC's and their DOT's:

Increase in dollar earnings of Met PC's	$276.5 million
Net decrease in dollar spending by Met.PC's	548.1
Net decrease in dollar deficit of DOT's for 1950/51	20.1
Reduction of dollar deficit in 1950/51	$835.2
Elim. of deficit of Indonesia in 50/51 accounts	47.5
Reduction in dollar deficit from 49/50 accounts	$882.7

In this summary we have treated the $30 million worsening of the other invisible account as an offset to the dollar saving of $578.1 million described above. The net dollar saving by the Met PC's in 1950/51 over 1949/50 should therefore total about $548.1 million. The total reduction of the dollar deficit, as described up to this point, adds to $882.7 million. The figure used below of $882.6

is correct. The difference is due to rounding.

Net capital operations: While the current account position of the PC's and their DOT's will improve to the extent of $882.6 million, their capital and settlement account position becomes worse. In 1949/50 the ERP countries collectively gave up $89.0 million more gold and dollars than they received on settlement accounts and capital operations. In 1950/51 there will be a net dollar drain of $290.2 million through capital account transactions.

Net government lending to foreign governments amounted to $30.3 million in 1949/50. In 1950/51 there will be net repayments by foreign governments (in excess of new borrowing) of $112.6 million. In particular Canadian net lending will decrease and United States government net receipts for amortization will increase. On capital account this represents a worsening of the situation of European countries of $142.9 million. The data for these estimates come from United States government sources.

Other public capital operations, which has been identified item by item, yielded $70.3 million of net capital to Europe in 1949/50. They will require net repayments by Europe of $49.8 million in 1950/51. On two items of this latter estimate ECA is seeking further information from the governments involved. This shift from net borrowing to net repayment involves a decrease in funds available to finance the deficit on current account of $120.1 million.

Thus the net effect of changing from a net borrowing to a net repayment position in connection with public loans is more than enough to account for the worsening of net capital operations as a whole.

Settlements and inter-area transfers: The settlements position of European countries will become better. The PC's (other than the United Kingdom) will pay out about $25.3 million more than they receive under settlements agreements in 1949/50 and only about $9.2 million in 1950/51. The most marked improvement is in the United Kingdom account (which includes the DOT's). Whereas the United Kingdom will pay out net about $246 million in 1949/50, this is estimated at $122 million in 1950/51. These changes in part reflect the effect of greater exports by the PC's to other parts of the world and the consequent improvement of their trade balance.

Net private investment and other capital operations yielded about $79.7 million to Europe in 1949/50 and are expected to yield only $3.4 million net in 1950/51. Long term private capital investment is not large but is expected to increase by more than 50 percent. On the other hand, short-term dollar balances were being built up in the United Kingdom after devaluation and yielded gold and dollars in 1949/50. In 1950/51, on the other hand, it will be necessary to build up private dollar balances to finance trade, so that the flow will again be away from Europe.

SHHuntington

ECONOMIC COOPERATION ADMINISTRATION

Washington, D. C.

Explanation and Justification

of

Appropriation Request for

1950/51

C. Pages 52-76 (end)

Feb. 7, 1950

e. Required dollar financing in 1949/50 and 1950/51, and available means:

The net gold and dollar payments requirements (after allowing for public and private capital movements and for settlements operations) may thus be summarized as follows:

	1949/50	1950/51	Improvement
Current balance	$-3,917.1	$-3,034.5	$/882.6
Net capital operations	-89.0	-290.2	-201.2
To be financed	$-4,006.1	$-3,324.7	$/681.4

New ECA aid was the chief means of financing this dollar drain in 1949/50. There were also certain other extraordinary sources of funds such as troop pay, etc. In 1950/51 these sources will be smaller, but there will also be net withdrawals from the ECA "pipeline". The means of financing the dollar imports in excess of dollar availabilities are therefore planned as follows:

	1949/50	1950/51	Change
ECA aid	$3,949.2	$3,071.7	$-877.5
Other receipts	68.4	20.7	-27.7
Reduce pipeline	0	262.0	/262.0
Means of financing	$4,017.6	$3,354.4	$-643.2

In 1949/50 the means available will permit the rebuilding of reserves to the extent of about $11.5 million. The indicated increase of $29.7 million in reserves in 1950/51 is also nominal, for it is not the intention of the ECA deliberately to plan the use of its funds to rebuild reserves, much as larger reserves are needed. If, however, a country can carry out its program, it is not the policy of ECA to penalize a country that saves enough to increase reserves moderately.

The pipeline operation means in effect that the value of imports in 1950/51 which will be paid for with funds obligated in earlier years will be greater than the obligation incurred in 1950/51 for goods to be delivered in later years. As ECA aid begins to taper off, the flow of goods will become less. As it does so, the funds obligated at the end of the year for later delivery of goods will become less than the funds which were so obligated at the beginning of the year. This draining of the pipeline means that on a net basis part of the imports of 1950/51 have already been provided for in earlier ECA appropriations.

f. Dollar Imports:

Dollar earnings from exports and such invisibles as shipping and tourism have been estimated at maximum levels for 1950/51. Dollar receipts on capital account have also been liberally estimated. Reserves are already too low to count on financing any significant amount of dollar trade by further drafts on PC reserves.

It follows that any decrease in the level of ECA aid, beyond that already projected for 1950/51, will have to be met by reducing projected dollar expenditures. This means in fact that imports would have to be cut, because the most important capital payments and interest payments are contractual. The only large item in the dollar current account, as indicated in Section (b) above, is dollar imports. They amount to:

1949/50	$ 4,966.5 million
1950/51	4,431.0 "
Reduction	$ 535.5 million

In the case of imports, as of exports, it is helpful to consider the total imports from the Western Hemisphere rather than dollar imports alone. The distribution of imports among the US, Canada and Latin America is shown in the summary tables. The total for the Western Hemisphere is as follows:

Food and Agricultural Imports	1949/50	1950/51
Food	$1,966.2	$1,776.1
Feed & fertilizer	379.6	377.8
Natural fibers	799.4	835.5
Other agric. products	313.2	290.5
Total	$3,458.4	$3,279.9
Industrial Imports	**1949/50**	**1950/51**
Fuels	$ 466.0	$ 432.3
Ind. raw materials	896.3	774.8
Capital equipment	955.6	846.5
Other mftures & raw material	228.8	210.0
Total	$2,546.7	$2,263.6
Grand Total	$6,005.1	$5,543.5

In appraising the possibility of any further reduction of dollar imports it should be remembered that dollar imports have been allowed for in the projections only when alternative sources are not available and only when the elimination of projected dollar imports would result in retarding European recovery.

In this connection two points are to be noted. There have been exports of commodities, like passenger automobiles and canned fruit, to countries like Belgium. Such exports will continue in 1950/51; but a reduction of aid will not cut these imports. Belgium receives no direct aid. Also, these imports could be eliminated only if Blegium returned to a system of licensed foreign trade.

The second point to note is that cutting dollar aid will result in cuts in the importation of <u>specific</u> commodities like wheat, tobacco, non-ferrous metals or mining machinery. Relative to the total supply of these particular commodities the cut is likely to be large. This is the kind of comparison that is needed to evaluate the damage to the economy of Europe of a reduction of dollar imports. It is not proper to compare the cut with the total GNP of Western Europe, because European goods and services are not generally freely interchangeable and, where interchangeability is possible, they cannot be reallocated quickly enough to repair the <u>specific</u> damage caused by cutting down a <u>specific</u> import.

Broadly speaking a reduction in dollar imports below the levels shown will critically impair consumption standards or current industrial activity, or will seriously retard improvements designed to increase Europe's capacity to earn dollars in the future. The first will happen if dollar imports of foodstuffs are cut below projected levels. The second will occur if Europeans choose to take the cut in raw material supplies. The third will occur if they reduce imports of machinery and equipment or if they have to dump extra exports of their own capital equipment on world markets to pay for food and raw materials.

The import program is discussed separately for industrial imports and for food and agricultural imports in the pages which follow. But first, the prodecure used in "screening" the import programs will be briefly explained.

The "Screening" Procedure. The import policies of the participating countries are necessarily directed toward decreasing dollar expenditures as rapidly as possible. This is not a goal in itself but is dictated by the current and prospective inability of Western Europe to earn, even with major effort, sufficient dollars to support a continuing high level of imports from the United States and other Western Hemisphere countries. The screening procedure by which the industrial program has been established for the fiscal year 1951 has been directed at minimizing dollar imports in every way possible consistent with speedy European recovery. Especial attention has therefore been given to the best possible use of dollar items. Even where prices may be somewhat higher in non-dollar areas, substitutions of these non-dollar sources have occurred.

Several related but essentially independent approaches were used to screen the 1950/51 industrial program. Each of the commodity specialists prepared independent estimates of probable consumption of the major raw materials and manufactured products. These requirements were established according to consumption trends of the past related to projections of general industrial activity in fiscal 1951. Within the range of estimation, only selective allowance was made for increased consumer intake or use. In the case of coal, for instance, the requirements reflect a continuation of very strict domestic heating allocations. Restricted use of gasoline for non-commercial vehicles has been assumed. Consumption increases have been allowed only where domestic production or intra-European trade would provide larger consumer supplies without recourse to significant dollar components and without unduly affecting the investment programs underway. Increased use of synthetic fibers fabrics is an illustrative exception of this kind.

Availabilities of industrial items were independently derived. Where dollar sources must be tapped, reviews were undertaken of the world supply-demand situation. This was an important element in the non-ferrous metals program where Western Hemisphere sources must be tapped for some share of the needs of all participating countries. Expenditures on copper, lead, aluminum, zinc and other non-ferrous metals and ores comprise 14% of the total outlays in the Western Hemisphere for industrial items. Maximum possible use of availabilities in Rhodesia, the Belgian Congo and other non-dollar sources were postulated before entering the residual requirements from the United States, Canada, Mexico and South America. In addition, maximum proportions were estimated to be utilized in concentrate form within the capacity of Western Europe to process the raw materials for their use or export.

In many cases the tight screening of dollar imports at this stage provided for substantial use of high cost domestic or non-dollar instead of low-cost dollar sources. In the case of sulphur, for instance, an essential raw material for the rapidly growing chemicals industry, increases are assumed in the program in the substitution of pyrites and high cost Italian sulphur to minimize purchases of cheaper sulphur from the United States. Such substitutions were balanced against their estimated effect on the increased cost to European industry and its competitive position especially as it related to dollar export possibilities. Indeed, this kind of screening was so rigid that the program will have to be constantly reviewed to insure that, by economizing in dollar imports, Europe does not become non-competitive in world markets with respect to its exports.

The independent reviews of requirements and availabilities were next considered in the light of inter-related commodities and investment patterns. For instance, an energy study covering the historical and projected energy needs for Western Europe was undertaken. This was for the purpose of appraising the relative use of coal, petroleum and electrical power. With the increasing availability of coal from domestic and Eastern European sources a maximum dependence upon this item for commercial use has been assumed within the technical and price limits. Even with this full use of coal, the program reflects almost complete cessation of exports from the United States. At the beginning of the ECA program over $300 million a year was used for American coal including ocean transport charges. The program recognizes full use of local resources for electric power and includes further large expenditures for both thermal and hydroelectric power installations. Such power facilities not only will contribute much needed energy for increased productivity but, once installed, they require minimum dollar needs for continued operation. Within the general United States Government policy of maintaining American Oil Companies in the petroleum trade where the dollar drain is not substantially enhanced, shifts to sterling oil are postulated. In addition, estimates are based upon a major increase in the use of European refinery capacity. The processing cost, which has a significant dollar component has thereby been reduced.

Upon the completion of the study of requirements and availabilities of each individual commodity and of related commodities, the total industrial program was reviewed in relation to the agricultural and food programs and the general economic and financial status of each participating country. Through this procedure the budgets of dollars and other currencies for each country were assessed and further screening of the dollar imports was made necessary. In the case, for instance, of the Netherlands it was necessary at this stage of the review to revise downward several raw materials imports. This will subject the high level of industrial activity to serious risk because it depends on reaching the assumed availability of these items from non-dollar sources, which in some cases is still conjectural. Further, it was necessary to eliminate or revise downward certain housing program increases which it had been hoped might be possible in 1950/51 in the interests of increased productivity and political and social stability. Even though the dollar component of this program is small, only current housing program rates are assumed with two major exceptions - Italy and the Federal Republic of Germany.

The final programs have, therefore, been the result of a careful review of the needs and availabilities, commodity by commodity and country by country. There was a strong tendency, in view of prospective dollar requirements and the amount of ECA aid likely to be available, to press for the most optimistic estimates of non-dollar supply availabilities. Dollar imports have been estimated at the most conservative levels consistent with a calculated risk of continued recovery momentum.

1950/51 Program for Industrial Imports: Next year's program reflects a very substantial reduction in dollar imports. Imports into the participating countries from the United States are slated to decline by 12 percent below the current fiscal year. Imports from Canada are expected to decline at a slightly lesser rate owing largely to the devaluation of the Canadian dollar last fall. Latin American exports of industrial goods to Europe are expected to decrease also, even though earnings of the European countries in that area are slated to increase rapidly. The decreases in imports from the Western Hemisphere are expected to be replaced by increases in intra-European trade and increases in trade with the Sterling Area and other non-participating countries. For example, more lumber and pulp and paper are expected from Eastern Europe next year. Increased levels of industrial production will be sustained by increased intra-European trade in chemicals, such as alkalis, plastics, dyestuffs and other industrial chemicals; and rubber products, such as rubber tires, tubes, camelback and repair material, and mechanical rubber goods. Increased domestic production of fabricated items and added availability of a few raw materials such as lead and zinc will also provide for increased levels of industrial activity. Western Europe will also produce a much larger share of its own needs of industrial and agricultural machinery.

Even with the increased non-dollar availabilities, a substantial risk is being undertaken with the reduction from previous levels of programmed dollar imports. Any failure of agricultural crops to reach anticipated levels will absorb the dollar budgets currently allocated to the minimum necessary needs of non-ferrous metals, petroleum, and all of the other raw materials and finished items for which Western Europe must continue to use its scarce dollars. Any failure, too, of postulated availabilities of such items as coal from Poland, lead from Germany or lumber and pulp from Finland would seriously cut into dollar availabilities presently budgeted for other essentials to recovery. The increased levels of production in Europe will need more copper, and these increases can come only from the dollar area. If the dollars are not available for such crucial and basic items, reductions in consumption will be reflected in a greater than proportional reduction in the total level of industrial output. It will also result in increased costs throughout the economy of Western Europe. Increases in the import of crude oil, much of it necessarily from dollar companies, is also anticipated to maintain energy levels required. Any failure of dollar earnings and ECA aid to reach estimated levels might seriously hamper energy consumption through reduction of crude oil purchases.

A further reduction in the rates of flow of many of the raw materials which are presently imported from the United States and other Western Hemisphere areas would seriously jeopardize Europe's production levels. Such items as sulphur, carbon black, hides and skins are basic items in the domestic production programs both for internal use and export drives. Any reduction in presently estimated rates of import next year would hinder seriously the recovery program. If, for instance, carbon black imports from the United States had to be reduced, very serious repercussions would be felt in the motor transport system since carbon black is an essential component in the tire-making process.

The investment programs of the participating countries is now at a critical stage. A few have reached the point where the major large projects are approved or the funds about to be committed. Once these commitments are made they must proceed. These become fixed charges and increase the impact on raw materials of any reduction in dollar availabilities. Where, however, industrial projects have not yet been committed -- for instance, in the electric power field -- grave consequences would be felt in the energy needs of many countries if these were curtailed. Western Europe must increase very substantially its power and energy capacity if it is to be assured of production levels and productivity sufficient to be the base for full recovery.

<u>The 1950/51 Program and Post-ERP Dollar Imports of Industrial Commodities</u>: By 1952/53, industrial imports of the participating countries from the Western Hemisphere are expected to decline very substantially from current levels. It is conceivable that industrial raw materials and machinery and equipment imports will decline by almost three-quarters of a billion dollars. Such declines will be dictated by the inability of Europe to earn sufficient dollars to maintain higher levels from dollar areas. While the lower levels anticipated are likely to be the result of actual decreases in demand by European importers, some part of the drop must be explained in terms of a continuation of import restrictions which will be the result of continued dollar stringency. The major element in the reduced imports is expected to be a reduction of about $400 million in capital goods items from the United

States. The investment programs of the participating countries are now at very high rates and machinery and equipment from the United States is moving or on order for large increases in capacity from steel making, oil refining, chemical production and textile fabrication. If this investment program is completed on schedule, the reduction in dollar imports is expected to be possible without unduly affecting continued recovery. For example, by 1952/53 steel imports and raw materials for steel making are likely to drop from 1949/50 levels of about $160 million from the United States to about $30 million. The increased European capacity will replace the current imports.

By the time ERP is over, lowered dependence of Western Europe on dollar supplies of non-ferrous metals is anticipated, especially in lead and zinc and, to a lesser extent, copper and miscellaneous non-ferrous metals and ores. In the case of non-ferrous metals, developments in non-dollar areas are expected to substitute for current dollar imports. The levels achieved in 1952/53 are expected to be minimum levels which can be assumed for continued recovery in Western Europe. Machinery imports will represent necessary amounts of spare parts and new types of equipment not available from the enlarged capacity of the ERP countries. Iron and steel imports will represent normal movements of specialty items. Other semi-fabricated items and raw materials will by that time represent minimum needs of items not replaceable from within Europe or from other non-participating countries in the Western Hemisphere. It is expected that Europe will continue to require such items as carbon black, hides and skins, and tanning materials from the Western Hemisphere at rates not far below current levels.

It will be seen from the above analysis, that the import levels envisaged during the post-ERP period anticipate only a modest increase in levels of living in Western Europe and will require a careful use of resources. If European earnings in dollar areas are larger than presently assumed, there is little doubt that the strength of industrial position will be considerably enhanced. This would make possible more satisfactory living levels, increased trade throughout the world, and a general strengthening of the economies of Western democracy.

However, unless the 1950/51 dollar import program goes forward as planned, these dollar savings in later years will not materialize except upon a basis of restricted living that would jeopardize our investment in European recovery. Imports of United States equipments, though small in relation to total investment expenditures, are nevertheless a critical element in the plans of the participating governments to modernize and increase the productivity of the industries on which the success of their export drive depends. While, by mid-1952, it should be possible to reduce equipment imports from the United States sharply, it would be a serious error of economic policy to force this reduction too early in the program, at a time when re-equipment and modernization plans in the major participating countries are still in mid-course.

Food and Agricultural Imports:

Agricultural imports have been subjected to the same kind of screening process that has been applied to industrial commodities. However, since more than 85 percent of the agricultural imports from Canada and the United States consist of 5 commodities or related groups of commodities, the analysis of projected agricultural imports can proceed on a more comprehensive specific commodity basis than could be attempted for industrial products within this brief compass. This type of analysis can obviously be made for each of the major industrial commodities also, as was indicated, in passing, by the discussion of non-ferrous metals, energy, etc.

It will be clear from the analysis of agricultural commodity imports that among the factors which must be considered in connection with a further cut of dollar imports is the effect on United States exports and domestic market conditions.

Total food and agriculture imports in 1950/51 from all sources, including Western Europe's own DOT's, are estimated to have a dollar equivalent value of $9.7 billion--almost exactly the same as the dollar equivalent value of 1949/50 imports. Since average agricultural prices, in terms of dollars, are estimated to be about 4 percent lower in 1950/51 than in 1949/50, it follows that the physical volume of food and agriculture imports in the year ahead should be about 4 percent larger than in the current year. This small increase in volume is almost wholly a reflection of an increased volume of intra-European trade which it is anticipated will grow out of the contemplated relaxation of restrictions within Europe.

As compared to the fiscal year 1948/49, the dollar equivalent value of imports in both 1949/50 and 1950/51 will be about 5 percent lower, but because of the substantial decline in prices, the volume should be higher.

Between 55 and 60 percent of all food and agricultural imports from all sources consist of food (bread grains, fats and oils, sugar, meats, dairy products, etc.). The dollar equivalent value of these imports in 1950/51, as in 1949/50, is about $5.6 billion which, because of the decline in dollar equivalent prices, represents a larger quantity some 5 percent. Because the anticipated increase in imports is to be largely from other participating countries, it will consist principally of low calorie foods. Consequently, if indigenous crop production in 1950 is as large as in 1949, food consumption in 1950/51 should be only very slightly increased in terms of calories as compared with the current fiscal year, but should be very close to the pre-war level. Its quality will, however, still be below that of pre-war in most of the participating countries, as per capita supplies of meat, dairy products, sugar and fats and oils will be less than pre-war, whereas bread grains, potatoes, vegetables, fruits and nuts, and fish will be above pre-war levels.

The volume of food imports in the fiscal year 1950/51 is calculated on the assumption that distribution will be unrationed with the exception of the United Kingdom for most major food commodities, and with the exception of individual foods in other countries (such as sugar in Germany and Austria and coffee in Denmark). The factors restricting consumption of high value foods will be, on the one hand, the limited purchasing power of large numbers of consumers and, on the other, the inability to permit imports, particularly imports from dollar sources. If it is assumed that by 1952/53 European food consumption should be equal to, or perhaps slightly above, pre-war in volume and almost equal to pre-war in quality, then the contemplated level of food consumption in 1950/51 is entirely reasonable. There still would be considerable progress to be made in the two succeeding years, particularly in food quality.

While the dollar equivalent value of food imports in 1950/51 is expected to approximate that of 1949/50, imports from dollar sources are scheduled to decline by nearly $200 million, or about 12 percent, as compared to 1949/50; and by $750 million, or 30 percent, as compared to 1948/49. The decline in the volume of imports from dollar sources will be somewhat less than the decline in dollar value since the unit prices of food imports are expected to be about 5 percent lower in 1950/51 than in 1949/50.

With the exception of sugar, practically all dollar imports of food and agricultural commodities in 1950/51 will originate in the United States and Canada. Imports of food and agricultural commodities from these two countries in 1950/51 are calculated at $1.9 million, as compared to $2.1 million in 1949/50 and $2.7 million in 1948/49. The decline in 1950/51 as compared to 1949/50 of $164 million is about 8 percent. Exclusive of cotton, for which some increase in dollar imports is projected, the decline amounts to $195 million, or 12 percent.

Five commodities represent 85 percent of the imports from the United States and Canada: bread grains, fats and oils, coarse grains, cotton and tobacco. The balance of the dollar imports from these two sources consists of a wide variety of miscellaneous items, ranging from Canadian cheese to United States turpentine, nearly half of which are imported by the United Kingdom. Projected imports of miscellaneous commodities in 1950/51 at $245 million reflects a 17 percent decline from imports of similar commodities in 1949/50. While a number of these commodities are frequently considered as less essential from the point of view of European economic recovery, it must be remembered that many of them are products which traditionally relied heavily upon the export market. It might be pointed out, too, that shipments of these commodities to Belgium are relatively large. All in all, it is believed that the projected level of miscellaneous food and agricultural imports from Canada and the United States in 1950/51 is about as low as can be considered realistic. Imports of dollar sugar in 1950/51 are projected at $141 million, or 23 percent, below those of 1949/50.

Bread Grain

The largest single dollar import for 1950/51 is bread grain from Canada and United States, amounting to an estimated 10 million tons with a value of $753 million. This represents a 7 percent reduction from 1949/50 and reflects, on the one hand, a slight reduction in total bread grain imports, and on the other, the projection of an increase of nearly 30 percent from non participating countries (largely Eastern Europe) which will probably not be realized. The quantity and value changes may be summarized as follows:

BREAD GRAIN
(Millions)

Year	Total Quantity	Total Value	Dollars Quantity	Dollars Value	Non-Dollars Quantity	Non-Dollars Value
1948/49	16.2	1,462	13.3	1,163	2.9	299
1949/50	14.3	1,113	10.7	827	3.6	286
1950/51	14.1	1,058	10.0	753	4.1	305

Indigenous bread grain production for the participating countries in 1950/51 is estimated at just over 33 million tons -- very slightly larger than the estimated 1949/50 output. The prospective increase in bread grain production in Turkey in 1950/51 (Turkey had an extremely poor crop in 1949) is expected to be offset by somewhat smaller production in such countries as Belgium, France, Germany and the Netherlands, where crop yields in 1949 were extremely high. Total bread grain supplies in 1950/51 are projected at about the same levels as those of the current fiscal year

In addition to a questionable 30 percent increase in bread grain imports from Eastern Europe, an increase of 25 percent is contemplated in imports from Latin America. Most recent reports from Argentina suggest that an increase in this order of magnitude is extremely unlikely unless the crop to be harvested a year from now (January, 1951) is much larger than those of the last two or three years. In summary, the most likely prospect appears to be that with imports from United States and Canada of not more than 10 million tons of bread grain in 1950/51, some moderate decline in carry-over stocks may occur, as estimates of indigenous production and supplies from non-dollar sources are both likely to be over-optimistic.

Fats and Oils

Imports of fats and oils from all sources in 1950/51 are expected to be about equal to those of 1949/50 but substantially larger than those of 1948/49, as will be seen from the following table:

FATS & OILS
(Millions)

	Total		Dollars		Non-Dollars	
Year	Quantity	Value	Quantity	Value	Quantity	Value
1948/49	2.83	1,498	.55	271	2.28	1,227
1949/50	3.00	1,289	.43	145	2.57	1,144
1950/51	3.03	1,238	.36	120	2.67	1,118

Purchases from dollar sources are expected to decline about 15 percent in 1950/51 -- a continuation of the decline that is taking place during the current year as a result of increased availabilities from non-dollar sources. Increased supplies are expected to be obtained from all non-dollar sources (i.e., Latin America, the Sterling Area and other non-participating countries). During both 1948/49 and 1949/50, about one-half of the non-dollar fats and oils came from the DOT's. Because Indonesia was considered a DOT in 1949/50 while it is now one of the other non-participating countries, imports of oils from DOT's appear to drop sharply during the forthcoming fiscal year. If correction is made for the reclassification of Indonesia, imports from DOT's in 1950/51 are almost identical to those of 1949/50 and the decline in imports from the United States and Canada is slightly more than compensated by imports from non-dollar sources other than DOT's.

Fats and oils include those required for industrial as well as for food purposes. Indigenous production of fats and oils in 1950/51 is estimated to be about the same as in 1949/50 (the increase in animal fats and oils from annual crops being offset by the biennial decline in production of olive oil). However, there was some increase in stocks of fats and oils in 1949/50 which it will not be necessary to repeat in 1950/51, so that, in addition to meeting the increased industrial requirements reflected by the projected higher rate of industrial activity, supplies are expected to permit an increase in per capita food consumption of about one kilogram for the year. This still leaves per capita fat consumption about 11 percent below pre-war. Any lower supply would be likely to require the reimposition of fats and oils rationing (fats and oils are now rationed only in the United Kingdom, Norway and Austria), a step which it would not be practicable or desirable to take.

Coarse Grain

The third of the five major food and agricultural imports from dollar sources (United States and Canada) is coarse grain. In summary, imports of this commodity are projected as follows:

COARSE GRAIN
(Millions)

Year	Total Quantity	Total Value	Dollars Quantity	Dollars Value	Non-Dollars Quantity	Non-Dollars Value
1948/49	6.7	487	2.8	175	3.9	312
1949/50	8.5	502	3.0	178	5.5	324
1950/51	8.8	500	3.0	172	5.8	328

Total imports of feed grains in 1950/51 are projected at a level slightly above that of the current fiscal year which, in turn, is estimated to be substantially larger than those of 1948/49. In contrast to declining imports of bread grains and fats and oils from the United States and Canada, feed grain imports in 1950/51 are forecast at the 1949/50 level in quantity, although slightly less in value because of the moderate expected decline in prices. Feed grain imports from non-dollar sources reflect only a slight increase from 1949/50 to 1950/51 but even so it is doubtful that the program for either year can be fulfilled. This is primarily because of the lack of availabilities in Latin America. Imports from non-participating sources (largely Eastern Europe) in 1950/51 are estimated at 15 percent above those of 1949/50, but practically no increase is expected from Latin America. Indeed, the projection for 1950/51 from Latin America is almost certainly too high in view of the rapid deterioration in the Argentine corn crop to be harvested in March 1950. The most recent report from the United States Embassy in Buenos Aires is that there will be no exportable surplus from the 1950 crop.

Because of lack of rainfall in 1949, the indigenous European coarse grain crop was 2 or 3 percent less than that of 1948 and 5 percent less than prewar. Indigenous production in 1950 is carried at practically the prewar level. Imports at 8,800,000 tons will, however, still be 20 percent less than prewar, so that total availabilities of 39,000,000 tons would be about 7 percent less than prewar although 4 percent more than during the current fiscal year. The increase in supplies is, of course, associated with the recovery in livestock production. Indeed, the increased availability is less than the expected increase in livestock output, thus implying some improvement in the efficiency of livestock feeding as well as the prospect of better pasture conditions in 1950/51 than in 1949/50.

Cotton

With the gradual recovery of the European textile industry, the need for expanding the volume of cotton imports is apparent. In addition to the clothing requirements of an increasing population and the industrial requirements of an expanding volume of industrial activity, cotton textiles constitute the largest single source of foreign exchange earnings. In 1947, cotton yarn production averaged 68 percent of prewar; in 1948, 70 percent of prewar, and for the first ten months of 1949, 88 percent of prewar. A further increase to about 95 percent of prewar is projected for 1950/51 which, in turn, requires a corresponding increase in imports of raw cotton. These may be summarized as follows:

COTTON
(Millions)

Year	Total Quantity	Total Value	Dollars Quantity	Dollars Value	Non-Dollars Quantity	Non-Dollars Value
1948/49	1.31	1,099	.66	496	.65	603
1949/50	1.36	1,048	.70	497	.66	551
1950/51	1.43	1,100	.75	528	.68	572

Both the quantity and the value of cotton imports from the United States in 1950/51 are projected at a level higher (about 7 percent) than for the current fiscal year which, in turn, will be higher than in 1948/49. At the same time, modest, but only very modest, increases are projected in non-dollar supplies. However, projected supplies available from non-dollar sources have been scheduled to the limit of their anticipated availabilities. The only non-dollar cotton not expected to be fully utilized in 1950/51 is a limited quantity of Egyptian extra long staple. Because of its very much higher cost, this cotton cannot be economically substituted for short staple cotton even though the latter has to be purchased with dollars.

If the gradual improvement in cotton textile production in participating countries is to be maintained in 1950/51, it is apparent that the increase in dollar cotton from the United States will be necessary. Indeed, it would be desirable if imports of U. S. cotton in 1950/51 could be expanded even above those now scheduled. Lack of adequate supplies of raw cotton is resulting in the forcing of large increases in synthetic fiber production in certain participating countries. This production has now reached a point in some countries that governmental interference is required to get it into consumption. This represents, of course, an uneconomical utilization of resources and one that could require continued governmental intervention.

Tobacco

The last of the "big 5" dollar imports is tobacco. The three-year record is as follows:

TOBACCO
(Millions)

Year	Total Quantity	Total Value	Dollars Quantity	Dollars Value	Non-Dollars Quantity	Non-Dollars Value
1948/59	.298	326	.155	150	.143	176
1949/50	.305	343	.166	175	.139	168
1950/51	.310	331	.152	151	.158	180

The participating countries' imports of tobacco from all sources in 1950/51 are projected at slightly above the 1949/50 level which, in turn, was slightly above 1948/49. In the earlier year, a number of countries drew down stocks while others, particularly Germany and Austria, had a very low cigarette ration (and a very extensive black market). Imports of dollar tobacco in 1950/51 are, however, projected at a level about 10 percent less than in 1949/50, with the decline slightly more than made up by the increases of tobacco from non-dollar sources.

The major decline in imports of U. S. tobacco will be by the United Kingdom, which is planning to drop its dollar imports in 1950/51 to $60.6 million from $84.1 million in 1949/50. The British anticipate in 1950/51 drawing down stocks of American tobacco by some 35 million pounds, thereby offsetting the decline in 1950/51 imports. This may be possible although it will leave stocks of U. S. tobacco on June 30, 1951 at an extremely low level. A similar reduction in stocks cannot possibly be made in 1951/52, so that imports of U. S. tobacco will have to be increased or a very substantial change made in the present (and preferred) blends of British manufactured tobacco. The decline already programmed for imports of U. S. tobacco in 1950/51 will be considered a most crucial matter by the interests concerned.

Albert H. Huntington, Jr.
6621 Gordon Avenue
Falls Church, Va. 22046

Monday
Oct. 3, 1983

Miss D. Helen Davidson
AID/PPC/E/Office of Development
Information & Utilization
209 State Annex #18

Dear Helen:

An unusual item for your collection — a copy of the Economic Cooperation Administration's "Explanation and Justification of Appropriation Request for 1950/51," i.e., the Congressional Presentation, dated February 7, 1950. The 76-page document was very lightly classified as "Restricted" thirty three years ago, but this has long since been crossed out.

The reader is referred particularly to Pages 7-13 for a description of "Recovery and Incentives". Note these quotes on Page 7:

"On the physical side alone the results of ERP [European Recovery Program], measured in terms of production, have been better even than the forecasts of optimists. .... Nor can recovery progress be wholly measured in physical terms. An important accomplishment of the combined European and American efforts that flowed from

General Marshall's famous speech at Harvard in the middle of 1947 has been a remarkable improvement in morale — the turning of despair into hope — which has been the biggest single factor in stopping the Communist drive in Europe."

One may also note a reference on Page 3 to "an allowance for aid to French Indo-China", a program described as "just about to be initiated by the ECA with the support of the State Department." Remember that this document is dated Feb. 7, 1950 — more than four months before the attack from North Korea on South Korea.

The push toward European integration also is taken up in some detail in this document, so I think it should be a significant archive, taken all together.

Sincerely yours —
Albert H. Huntington Jr.