Calendar No. 738

80th Congress, 2d Session - - - - - - House Report No. 1585

FOREIGN ASSISTANCE ACT OF 1948

REPORT

OF THE

COMMITTEE ON FOREIGN AFFAIRS

ON

S. 2202

A BILL TO PROMOTE THE GENERAL WELFARE, NATIONAL INTEREST, AND FOREIGN POLICY OF THE UNITED STATES THROUGH NECESSARY ECONOMIC AND FINANCIAL ASSISTANCE TO FOREIGN COUNTRIES WHICH UNDERTAKE TO COOPERATE WITH EACH OTHER IN THE ESTABLISHMENT AND MAINTENANCE OF ECONOMIC CONDITIONS ESSENTIAL TO A PEACEFUL AND PROSPEROUS WORLD

MARCH 20, 1948.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1948

73259

CONTENTS

80TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 1585

FOREIGN ASSISTANCE ACT OF 1948

MARCH 20.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. EATON, from the Committee on Foreign Affairs, submitted the following

REPORT

[To accompany S. 2202]

The Committee on Foreign Affairs, to whom was referred the bill (S. 2202) to promote the general welfare, national interest, and foreign policy of the United States through necessary economic and financial assistance to foreign countries which undertake to cooperate with each other in the establishment and maintenance of economic conditions essential to a peaceful and prosperous world, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

I. GENERAL PURPOSES OF THE BILL

This bill provides for the conditioned participation of the United States in a program of foreign assistance that covers (1) European recovery, (2) a continuation of assistance to the International Children's Emergency Fund, (3) military-type aid to Greece, Turkey, and China, and (4) economic aid to China. The European recovery program is intended, if its provisions are met, to continue until June 30, 1952, with annual review, both for authorizations and appropriations, by the Congress.

The bill recognizes that military security and domestic tranquillity are necessary prerequisites to economic recovery and the maintenance of peace and free institutions, to the degree that it makes provision for military-type aid to those areas which are most beset by the dangers of externally sponsored communism. The bill authorizes a total of $6,205,000,000 for all the purposes included in the proposed act.

A. PROPOSED AUTHORIZATIONS LISTED

Title I authorizes $5,300,000,000 for European recovery, including the 16 nations which accepted the conditions of the Paris report of the Committee on European Economic Cooperation in September 1947, the occupied zones of Germany (by Russian choice only the western), and Trieste. Of this amount, $1,000,000,000 may be advanced by the Reconstruction Finance Corporation prior to the action of the Congress on 4.3 billion dollars which is authorized for appropriations either for grants or loans. One billion dollars of the total of $5,300,000,000 authorized is to be for guaranties up to $500,000,000 and for loans made through the Export-Import Bank financed by public-debt transactions.

Title II has a conditioned authorization for the International Emergency Children's Fund for $60,000,000.

Title III authorizes $275,000,000 for primarily military-type aid to Greece and Turkey, under amendments to the Foreign Aid Act of 1947, and $150,000,000 for primarily military-type aid to China, by adding China to this title.

Title IV authorizes $420,000,000 for primarily economic aid to China.

B. OBJECTIVES AND SAFEGUARDS

The economic aspects of the program are intended to encourage the recovery of Europe and to assist China on the road to stabilization of its exhausted and still war-torn economy. To this end, a new agency, the Economic Cooperation Administration, is created, with the responsibility and control vested in a single Administrator, who is to be given a rank equivalent to that of the heads of executive departments. The Administrator is provided with the powers to establish a corporation as an instrument for accomplishing his policy objectives.

Both the military and economic aid are to be coordinated into the broad foreign policy objectives of the United States by establishing proper channels of consultation for the Economic Cooperation Administration with the Secretary of State, both at home and abroad, and by vesting control of funds for all foreign aid in the hands of the President.

A number of safeguards have been introduced to assure that the money appropriated to both ends will be administered properly and will be adequately accounted for. Other conditions have been attached to secure protection of the domestic economy of the United States from impairment. Still other conditions for fulfillment by the recipient countries have been attached to both the initiation of aid and its continuation.

Primary emphasis is placed throughout the bill on encouraging the participating nations to help themselves and each other. The Administrator is charged with securing through the agreements negotiated by the Department of State the protection of the primary purposes of the bill, including also recognition of the drain of this program on the natural resources of the United States, the equitable access of private enterprise to the development and purchase of raw materials abroad, and repayment, insofar as practicable, through the development of new or increased production of strategic materials for stock-piling by the United States, or by other means. It is recognized, however, that the larger portion of foreign aid must be in terms of what amount to grants, for which payment is not made, since the local currencies received are to be used only for the benefit of the countries receiving the aid, and on terms to which both they and the United States agree.

II. Background

Almost 3 years after VE-day, the peace and freedom for which the largest-scale war in history was fought are seriously endangered. Many of the nations which were freed from the yoke of Hitler in the west or of Japan in the east either have already fallen or are in danger of falling under the domination of communism controlled by Russia.

The exhaustion into which Europe and China particularly have fallen has had added to it the additional burden of resisting aggression in new and subtle forms, through the use of fifth columns, aided by intimidation and in some cases by armed incursions from outside. These incursions have been most obvious in the case of Greece, but the same pattern is rapidly developing in China and Korea and may be expected wherever weakness and internal divisions give a prospect of its success.

The United States, which has sacrificed more than $300,000,000,000 in achieving victory in the war and has already devoted sums approximating $20,000,000,000 in the postwar efforts to establish peace and prosperity, is now called upon to make an effort less extensive in scope and magnitude but of equally critical importance to the survival of a free world.

A. THE NEED OF AID

The pressing character of the time factor for action is illustrated in each succeeding day's headlines. The danger of the pervasion of all Europe by a sense of fear and hopelessness in the face of the by now completely obvious tactics of communism can only be met by a firm decision and a willingness to adopt at once the necessary measures to reverse this trend. Approaching elections in European countries will be of the most critical character yet confronted in the postwar period. The assurance of immediate and further aid by the United States, coupled with the unmistakable intention to assist those areas most in danger of military incorporation or civil war, inspired and sustained from outside, will be perhaps a determining factor in the outcome of these critical elections.

It is unnecessary to paint the picture of the alternative with which this country would be faced, should the few great critical barriers to the march of communism disappear. Past and present sacrifices of an economic character would be small indeed compared to the burden which this Nation would have to assume in such a world. The very survival of the United States would be more seriously at stake than at any other time in its history. Faced with this prospect, there can be but one choice: to extend the aid necessary in both economic and military spheres. A calculated risk, is has been called. But such a risk is no risk, compared to the grim certainty of the alternative.

The committee is convinced that aid of a military character to Greece, Turkey, and China is absolutely essential at this time to protect the conditions without which economic aid may be completely futile. It is for that reason that it has incorporated the military aid in the same bill with the economic. It has also felt the necessity for putting into the bill the major programs for economic aid which demand integration under a single administrator and the swiftest possible initiation. It calls attention, however, to the fact that other programs of aid are still in prospect for consideration in this session of the Congress. The sum total of aid for the mere prevention of disease and unrest in Germany and the other occupied areas will exceed 1.4 billion dollars.

There are additional programs of which the administration has given notice which may involve an increase of the capital of the Export-Import Bank by an amount of $500,000,000 for loans to Latin America, and the request for additional funds for recovery in Japan and Korea over and above the administration's GARIOA program, which is included in the disease and unrest figures above, amounts to $220,000,000. The sum total of aid proposed for authorization for the 12-month period including the cost of maintaining our present military establishment abroad is about $9,000,000,000, as detailed in the authorization section of this report.

The committee recommends the present bill and authorization as the immediately necessary combination of military and economic aid. At the same time the committee is convinced of the utility as well as the high moral obligation to continue the only current effort in international relief under the aegis of the United Nations—its proportionate contribution to the International Emergency Children's Fund. This fund is keeping alive 4,000,000 children for the future. It is the irrefutable proof, to those it reaches despite the iron curtain, of the peaceful and humane aims of the United States.

B. DEVELOPMENT OF AMERICAN POLICY SINCE THE WAR

The effort to achieve stability in the world has included making available on order paid to foreign countries four main categories of aid to date: (1) The completing of pipe line lend-lease in the postwar period; (2) the disposal of tremendous quantities of surplus war assets and property abroad at very low figures; (3) the relief assistance given through UNRRA, through private channels of relief (running into sums approximately one-fifth as large as the United States contribution to UNRRA itself); (4) assistance to prevent disease and unrest assistance in occupied areas; and (5) loans made either through the Export-Import Bank, the Bank of International Reconstruction and Development operating primarily with American capital, through private investment, and through the contributions of the United States to the International Monetary Fund, which has so far come into only limited use.

These efforts have not succeeded in arresting deterioration in some countries, though they have brought others to a production level equal to or greater than that of prewar. Against the background of destruction and loss of capital assets by these nations, however, this production has not been adequate both to make good the starved level of years of wartime privation and deterioration and at the same time to reestablish the necessary exports to achieve a healthy balance of trade. The relief efforts of the United States have prevented what would otherwise have been mass starvation and complete collapse of the economies both in the countries now under Russian domination and in those liberated during the war and still free.

Almost 3 years have now been spent in trying to secure a basis of peace and free cooperation from Russia in the rebuilding of these economies with a record of continuing frustration and of the draining of resources by Russia from the countries which the United States was at the same time aiding. The contributing factor of the continuing stagnation of the German economy, more serious even than that of Japan and the Far East in its effect on the general level of world prosperity, deserves serious attention and immediate remedy.

This state of affairs now seems belatedly to have been recognized, though the necessary steps to implement the major decisions of policy remain to be taken. Without the restoration of German productivity, there will be not only a continuing drain on the taxpayer of the United States, but also an irremediable gap in the chain of the necessary factors leading to European and world recovery.

C. CONGRESSIONAL ACTION

The recognition by Congress of the true nature of developments in Europe and an analysis of the critical defects in the attacks being made on European recovery problems can be verified by a long succession of congressional reports, proceeding from both standing and select committees of both Houses. Authorized by a House resolution adopted July 17, 1945, a Committee on Foreign Affairs subcommittee made a study trip in the fall of that year and reported to the Congress its findings on political and economic conditions in eastern Europe and the Mediterranean area.

The Committee on Foreign Affairs, prior to the Harvard speech of Secretary of State Marshall in June 1947, had initiated an inquiry among the executive departments. This inquiry resulted in the publication of the report of its subcommittee No. 2 on foreign economic policy, Needs, Limits, and Sources of American Aid to Foreign Countries; Supplementary Sources From Self-Help and Other Countries, shortly after Secretary Marshall's proposal. The House established also, in July 1947, the Select Committee on Foreign Aid, proposed by House Resolution 296, introduced on April 12, 1947, by Representative Christian Herter. This committee, under the chairmanship of the chairman of the Foreign Affairs Committee, was established to study the actual and prospective needs for foreign aid; the resources and facilities available to meet such needs, both within and without the United States; existing or contemplated agencies of all types qualified to deal with such needs; and measures to assist in assessing relative needs and correlating United States assistance without weakening the domestic economy.

Studies by the House Committee on Foreign Affairs, particularly those on the political conditions in Europe, the Middle East, on the tactics and strategy of world communism, and on Japan, Korea, and China, as well as the numerous reports of the Select Committee on Foreign Aid, have provided information on which Congress has been able to assess the proposals of the administration and the several studies proceeding from the executive departments (the Krug report, the Harriman report, and the report of the Council of Economic Advisers).

President Truman, by his special messages to Congress in December 1947, requested the authorization of a program amounting to $17,000,000,000 for the period April 1, 1948, to June 30, 1952, and with recommendation of an appropriation of 6.8 billion dollars for the 15-month period April 1, 1948, to June 30, 1949.

The Congress, in response to his request of November 17, 1947, for $597,000,000 for interim aid to France, Italy, Austria, appropriated $522,000,000 of $597,000,000 authorized, with the additional inclusion of China in the program.

The Senate, in response to the President's request for the appropriation of 6.8 billion dollars for the 15-month period, passed, on March 13, this bill authorizing the appropriation of 5.3 billion dollars for a 12-month period, of which $3,000,000,000 was to be taken from this year's Treasury surplus and put in a special trust fund. It added to the recommendations of the President, as to administration, the types of agreements to be made and financial arrangements to be embodied in the new program. Numerous additional safeguards were included; and the Administrator, as head of an independent agency, was put on a parallel with the heads of the existing executive departments. Certain provisions were inserted to assure that, while the Department of State should be adequately protected in its control of foreign policy, the resolution of possible differences between that Department, in its concern for over-all foreign policy, and the Administrator, in his preoccupation with economic matters, should be referred to the President for settlement. It added a public advisory body to consult with the Administrator on the performance of his functions and policies in connection therewith. The Senate bill formed the basis for the revisions and amendments which are contained in the bill now reported to the House.

The Committee on Foreign Affairs at the beginning of the regular session in January adopted the following motion:

> That the committee proceed with hearings on United States foreign policy for a postwar recovery program, and that the first step be consideration of proposals for a European recovery program, including H. R. 4840 and H. R. 4579 and similar measures.

The committee had before it at that time both the administration bill (H. R. 4840) which accompanied the President's message and was introduced by the committee's chairman, Mr. Eaton, and the Herter bill (H. R. 4579). The decision to treat the whole problem of the restoration of war-torn economies, to include China as well as Europe, came not only from logical considerations but also from the painful experience of the committee in receiving from the administration a long succession of "piecemeal" programs, each with a separate timetable of emergency, without any adequate total program, either as to scope or commitments.

The committee held hearings from December 17 to March 10, inclusive.

Appendix I contains a description of the hearings and lists the witnesses.

D. DOCUMENTATION

In addition to the reports of the executive department, of the President's committee, which included distinguished public figures, and of the studies made by the House committees mentioned above; congressional experience in the previous foreign-aid legislation, such as postwar lend-lease, UNRRA, interim aid, and so forth, had afforded a broad background of experience in assessing the foreign claims. Of particular value, however, were the extensive studies of the availabilities of items in short supply both in the United States and in the world, and the elaborate documentation by the Department of State in the presentation of the administration program following the report of the 16 countries of the Committee on European Economic Cooperation meeting in Paris. This included a break-down both in terms of commodities and countries. (See tables in appendix II.)

The sheer bulk of this material reached proportions probably never before achieved in a congressional study of pending legislation and its brief analysis into simple components has presented great difficulties. The subsequent analysis that is offered in this report of the dollar requirements of European countries and of a few selected commodities, as well as the dollar availabilities and the capacity of other countries to assist in the programs for European and world recovery, will serve to show the inevitable range of legitimate difference between the upper and lower limits which might be either requested or authorized. Price factors alone could account for a sizable variation in the major items that may run, in the case of foodstuffs, to as much as 20 percent.

The amount of assistance that may be forthcoming, without dollar payments from other countries of the Western Hemisphere for a 12-month period is reckoned at $700,000,000 in the estimates of the Department of State, but a larger figure might conceivably be achieved. Similarly limited availabilities of steel and petroleum and perhaps the impossibility of scheduling capital equipment at the rate anticipated might considerably reduce requirements for the first 12-month period.

On the other hand, the variations in price may go up because of a bad crop year, as well as down, and any delays in the inauguration of the program or an interruption to the pipe line of supplies, or serious political disturbances in the countries concerned might render more aid necessary. It also seems likely that estimates for exports from certain of these countries have been exaggerated, and the same conclusion may be reached as to the figures for imports to CEEC countries from eastern Europe.

On the whole the committee took the view that, from its study of the documents concerned, the safe plan was to rely upon sound administration not to spend the sums appropriated wastefully or inefficiently, and therefore to cover the reasonable requirements in full so as to allow for the margin of error possible in any such large-scale program in so unsettled a world. Sums not expended during the first year would reduce the need of appropriations in subsequent years.

On the other hand, the speed and efficiency with which capital development could be achieved and maximum restoration of economies encouraged by the earliest possible application of aid, would serve to decrease the need in later years. The best safeguard for the success of the program would therefore be adequate aid as rapidly as possible.

The studies on the administrative aspect of the program which have been made by the Select Committee on Foreign Aid as well as by the Harriman committee and the executive departments were supplemented by the report submitted by the Brookings Institution at the request of the chairman of the Committee on Foreign Relations of the Senate.

The hearings of the Committee on Foreign Affairs served very usefully to develop and criticize the proposals made in these various studies, both with respect to the adequacy of the machinery proposed and the powers that would have to be vested in the Administrator. It was as a result of these hearings that the committee reached their decision to empower the Administrator, in his discretion, to set up under his policy control, a corporation, in order to perform in as businesslike a manner as possible functions and responsibilities imposed upon him by this bill.

A selection of the major tables which will be of use to the House in its study of the proposed legislation is attached as appendix II to this report, together with maps showing the extension of Communist control in Europe and in Asia, appendix III.

E. DIFFICULTIES AND PROGRESS IN EUROPE

In addition to the exhaustion and destruction of the war which has affected directly and indirectly all the countries involved in the legislation, the factors noted below have contributed to the continuing distress of the European economy:

(*a*) The first factor is the systematic efforts of Russia to disrupt the economies and unsettle or destroy the governments which were not under its direction—the open intention to frustrate in every possible way the recovery program cooperatively undertaken by the countries of western Europe at Paris was revealed by the countermanding of efforts of several of the countries of eastern Europe to participate in the program. This intention was underlined by the characteristic attack made by one of the leading members of the Politburo, Mr. Zhdanov, in inaugurating the Cominform in Warsaw in October 1947. The immobilization of Germany has resulted in major part from the impossibility of securing the cooperation of Russia. Action in the western zones and the settlement of the reparations problem have been delayed, and the usual tactics of Communist-inspired strikes and political sabotage have been pursued in all the key countries of Europe. Eastern Europe has been effectively diverted from its normal channels of trade to the great loss of the west.

(*b*) The second factor involves displacement of population, including the pushing of millions of nonproductive Germans from the eastern zone into the western zones; the 8-percent increase in the population of Europe in spite of the destruction of war; the dislocation of numerous refugees from totalitarianism, both Fascist and Communist; the detention of millions of war prisoners in Russia and a very large number in France and England, even up to the present time; and the lack of free movement for needed manpower from countries with a surplus like Italy to nations in serious need, have all contributed to economic distress. The particular distress of Greece can be illustrated by the fact that nearly 500,000 refugees from the territories subject to Communist incursion constitute a problem that renders any purely economic solution impossible.

(*c*) The third factor rises from the fact that agricultural production has been subject not only to the inevitable deterioration of soil due to lack of fertilizer and overuse during the war, but, during the last 2 years, to severe drought and in the last year to a devastating winter with subsequent floods. The agricultural production of eastern Europe as well as the food production of some colonial areas of previous importance were also lost in considerable measure. The former was due to the cutting-off of any surplus from export by the trade policies imposed, and the surpluses themselves tended to disappear because of the quartering on these areas of large numbers of Russian soldiers or the building up of so-called local security forces and armies under Soviet control. In addition, the land policy with its division of holdings into very small units tended to reduce the exportable agricultural surpluses.

(*d*) The fourth factor involves the physical deterioration of a war-strained machinery and the overuse in many cases approximated the destruction of actual war damage. The loss of productive skills was a peculiarly serious factor in mining, as the recruitment of young and strong miners had been seriously affected by the war mobilization and by the subsequent movement of populations.

(*e*) The fifth factor, the inevitable concomitant of all the above factors, is inflation, the product of political instability and lack of production, as well as the inability to move goods from normal trade channels. The standards of production of western Europe were, next to our own and those of Canada, probably the highest in the world in the prewar period. Under the impact of the factors mentioned above, the 250,000,000 people, in round figures, who are contained in western Europe, produce less than one-half of our own national income. Since Europe was on balance necessarily heavily dependent on imports, the world-wide inflation which had increased the costs of primary products particularly, has borne heavily upon the whole European economy. The result has been an overwhelming demand for the few sound currencies remaining in existence and in particular the dollar, since it represented the productive capacity which all nations needed.

The countries of Europe today are existing on a dietary level below the standard which permits an adequate day's labor. In Germany the level is below that of a bare subsistence diet and in all the countries of Europe inflation has prevented the farmer from being willing to supply the city dweller with the food which was available. Unless and until more goods can be produced, no remedy is possible for black-market conditions and for general inflation with its attendant political dangers.

It would be a very one-sided picture, however, to suggest that Europe has not made substantial and steady progress toward putting its own house in order. Italy, under the most difficult conditions and with an industrial production level still only about 75 percent of prewar, has brought inflation under some control and has actually begun to move toward a stable currency. The French position has been improved in spite of the serious strikes and political disorders which parallel the Communist attempts in Italy and were timed mainly at the very outset of the interim-aid program in December.

The Scandinavian countries have made substantial and steady progress toward recovery and the three countries which comprise the Benelux union (Belgium, Netherlands, Luxemburg) have made remarkable progress toward economic recovery and political stability.

England, in spite of the severe difficulties due to the lack of adequate exports, the loss of India and Burma, and the sacrifice of its foreign holdings through the war, together with the creation of a tremendous debt in blocked sterling, has with the help of large-scale American aid, increased its industrial production 20 percent above the prewar level and maintains complete political stability.

The production of western Germany, which has reached only about 35 percent of its prewar level, served to bring down the whole production index of the countries of western Europe which had, in the main, achieved roughly parity with prewar production, although with the increase in population the per capita national income of the participating countries fell considerably below the 1938 level.

Throughout western Europe steady progress was made in the restoration of transportation, including ocean shipping, and in the output of coal and the production of hydroelectric power. Actually hydroelectric power in 1948 was increased on the continent of Europe by nearly 40 percent over 1938. With the development of the colonies of Europe and the restoration of trade with countries with exportable surpluses of food and primary products, particularly with Latin America and the British Dominions, the need for extraordinary outside aid should tend progressively to disappear. If political and economic stability can be achieved in Europe, the Middle and Far East, we can look forward to the resumption of a normal and healthy trade which will permit the maintenance of high levels of production in this country as well as the rest of the world. Serious difficulties will, of course, remain until coal production is increased according to the programs set forth in the CEEC report. Petroleum, too, will furnish peculiar difficulties which are not rendered easier by the existing threats of political chaos in the Middle East, centering on Palestine. The whole European recovery program depends in considerable measure on the development of the exportable oil of the Middle East in the next 3 or 4 years, since, without oil, not only its industrial users but transportation will be seriously crippled.

The important point is that all the problems which Europe faces are capable of solution at least if the western half of Europe acts in cooperation and with an increasing measure of political and economic unity. In order to be able to defend itself against the encroachments of communism it must have the basic conditions of political security and economic health. The recovery of Europe, painfully initiated since the war, is now at a critical turning point. It may go forward with increasing tempo or it may lose ground with appalling rapidity.

F. JOINT MEASURES

The report of the Select Committee on Foreign Aid, What Western Europe Can Do For Itself (preliminary Rept. No. 14), showed a number of examples of steps already taken by European countries to facilitate joint efforts toward recovery. The functioning of the Inland Transport Organization, although beset with difficulties in the return of cars from eastern Europe and by the blocking of much inland water transport, has nevertheless made substantial progress toward the goal of restoring the operating rail system of Europe as an integrated whole, at least in the CEEC countries. Efforts are also being made with some success to integrate developmental schemes for the transmission of electric power through a grid system organized by western Europe, though with insufficient emphasis on the German participation in such a development.

In addition to these practical efforts at integrating the economy in some of its most basic factors, the following steps have been taken:

(*a*) A study committee on customs union, established first at the CEEC conference, has been set up to examine the possibility of a common customs union among all the countries represented. This effort is in its initial stages and is encountering the natural difficulties, but it has been supplemented by the actual entering into effect of the Benelux customs union on January 1, 1948. Denmark, Iceland, Norway, and Sweden are also projecting a similar customs union, and France and Italy, as well as Greece and Turkey, are undertaking bilateral negotiations to the same effect. In times when the government regulation of imports through the application of quota systems and foreign-exchange controls is so rigid as is almost necessarily the case with strained economies and general dangers of inflation, the mere initiation of a customs union does not accomplish sweeping economic effects. It is, however, a necessary step in the direction of progress toward real economic unity which will provide free movement of manpower, labor, capital, and goods across national frontiers.

It is noteworthy that a recognition of the political corollary has already been recognized in the recent meeting of the five countries—Britain, France, Belgium, Netherlands, Luxembourg—which on March 17, 1948, entered into a 50-year mutual-assistance pact, which included both provisions for mutual defense against aggression in Europe and for increased measures of economic and political cooperation.

(*b*) The Economic Commission for Europe of the United Nations has taken over the European Coal Organization and the Inland Transport Organization, and has engaged in some measure of studying the possibilities of systematic cooperation between European countries, particularly those of western Europe. Five of the sixteen countries of CEEC are not members of the United Nations, but they have nevertheless been invited to the committee meetings of the Economic Commission for Europe.

It seems unlikely, however, that an organization under the aegis of the United Nations can provide the close cooperation and stronger central organization that is an obvious requisite for western European economic recovery as well as adequate defense against the threat from the east.

Recognition of this fact and of the possible desirability of readmitting Spain to the family of western European nations seems to be growing among the countries of western Europe and is certainly manifesting itself in opinion in the United States.

Any such European union or western union, as it has been called by Mr. Bevin, the British Secretary of State for Foreign Affairs, in a highly significant recent speech, would require for its success the effective mobilization and joint development of colonial resources, including free and equal access to United States private enterprise.

Unless the European colonial countries are able and willing to open up their colonies for such joint development, any western European union will lack the necessary resources. Similarly, the failure to mobilize the full productive capacity of the Ruhr would be a fatal block to recovery.

(*c*) The clearinghouse which was set up on the recommendation of the Financial Committee of the CEEC conference for intra-European balances has been initiated since January 19, 1948. Although it is so far operating in only a limited way through the Bank for International Settlements, it shows the possibility of a development which will be tremendously facilitated by the European recovery program.

G. SUMMARY

As a result of the study of the foregoing factors, the committee has set forth as the object of the recovery program the purposes stated in the preamble of the bill. It has included the conditions undertaken by the CEEC countries voluntarily in their Paris Conference. It recognizes that the success of the program rests upon the willingness and good faith of these countries in carrying out their pledges both to help themselves and to help each other. It specifically provides that the continuance of the program depends upon the fulfillment of these pledges.

The committee has concluded that the program is necessary to prevent the United States from being confronted with a world so unbalanced and hostile as to present almost insuperable burdens to the people of the United States in the future, if Europe is not once more rendered free and adequately strong, both in its political and economic life. The same consideration has led the committee to include China as a barrier in the Far East against the further encroachments of communism and the domination of the world by Moscow.

The committee is convinced that in cases where civil war and Communist aggression are present, as in China and Greece, and external threats are dangerous, as in Greece and Turkey, military-type aid is required to insure the effectiveness of economic aid. It has therefore concluded that the prompt enactment of the comprehensive program embodied in the Foreign Assistance Act of 1948, as amended by your committee, is essential to the security and prosperity of the United States and to the establishment and preservation of world peace.

III. Estimates of Proposed Authorizations

A. AUTHORIZATIONS SUMMARIZED

The House bill would provide for authorizations of appropriations amounting to $5,205,000,000 to cover the following:

	Amount	Period
European recovery program	$4,300,000,000	12 months following enactment.
Economic assistance to China	420,000,000	15 months ending June 30, 1949.
Greek-Turkish aid	275,000,000	Added to existing authorization; no terminal date specified.
Military aid to China	150,000,000	15 months ending June 30, 1949.
International Children's Fund	60,000,000	12 months ending June 30, 1949 (contingent upon contributions by other countries).

In addition, the bill provides for an increase of $1,000,000,000 in the borrowing power of the Export-Import Bank, bringing the total number of new dollars to be made available for foreign aid under this legislation to $6,205,000,000.

The bill does not cover tne cost of the "disease and unrest" program in occupied areas, the cost of the present United States military establishment abroad, nor increased lending capacity of the Export-Import Bank for loans to Latin America. The present bill, together with these additional programs, involves a total of $9,316,000,000.

Recapitulation of estimated cost of existing and contemplated foreign financial commitments

	Million	
1. Proposed "Foreign Assistance Act of 1948":		
European recovery program:		
Authorization of appropriations	$4, 300	
For loans by Export-Import Bank	1, 000	
China:		
Economic assistance	420	
Military assistance	150	
Greek-Turkish aid	275	
International Children's Fund	60	
Total		$6, 205
2. Disease and unrest program in occupied areas [1] (included in the Army's budget):		
Germany	$836	
Japan and Ryukyus	487	
Korea	134	
Austria	8	
Trieste	16	
All others	2	
Total		1, 483
(Approximately $95,000,000 of this represents administrative costs; the remainder is for the purchase of relief supplies.)		
3. Present U. S. Military Establishment abroad (included in the President's budget for fiscal 1949):		
Germany	$256	
Austria	36	
Japan and Ryukyus	344	
Korea	122	
Estimated Air Corps cost	150	
Total		908
4. Other contemplated economic foreign aid:		
Economic reconstruction (Japan and Korea)	$220	
Export-Import Bank (increase in lending capacity for Latin-American loans)	500	
Total		720
Grand total		9, 316

NOTE.—While not all of these are 12-month authorizations and expenditures from others are contingencies, the total represents an amount which should be considered as a possible 1-year expenditure for foreign activities.

[1] These estimates for the April to April period are based on the assumption that the $150,000,000 remaining of the 1948 authorization is appropriated (now before House Appropriations Committee) and that the 1948–49 authorization ($1,250,000,000) is approved.

The administration requested $570,000,000 for economic aid for China for the next 15 months. The present bill cuts this to $420,000,000, but adds $150,000,000 for military assistance.

Other contemplated economic aid, including $220,000,000 for Korea and Japan and an increase in the lending power of the Export-Import Bank for Latin-American loans amounting to $500,000,000 are not included in the bill since they are of less urgency than the needs therein specified.

The President has asked the Congress to appropriate $55,000,000 of interim aid funds already authorized but not yet appropriated to take care of urgent western European needs from April 1, 1948, to the effective date of the European recovery program. Since this is already authorized it is not included in the recapitulation presented above.

B. DOLLAR REQUIREMENTS OF THE EUROPEAN RECOVERY PROGRAM

Estimates of the volume and kinds of commodities that will, in fact, be required to enable the countries of western Europe to effect economic reconstruction are necessarily subject to wide margins of error owing to the variety of assumptions upon which the estimates are made, including possible changes in prices, crop conditions, and availability of supplies.

"Economic reconstruction" is a concept that can, and does, serve as a useful over-all target. In and of itself, however, it provides no yardstick as to detailed requirements. "Recovery" does not mean that Europe should recover exactly what it had before the war. Indeed, in certain respects, the prewar economies of certain European countries left much to be desired. At the very heart of the philosophy of the European recovery program lies the hope that western Europe will develop on a continental, or at least a group, basis rather than along the lines of national self-sufficiencies. What is hoped for is voluntary action on the part of those countries that will make them economically self-supporting as opposed to economically self-sufficient.

For such an objective there clearly can be no advance pattern. To have one, and to establish the controls and means of enforcement that would be necessary to bring it into being, would necessitate the use of some of the very kinds of outside pressures to which the United States and other democratic nations are unalterably opposed.

C. WORK OF THE PARIS CONFERENCE

When the representatives of the 16 participating European countries met in Paris, following the suggestion made by Secretary of State Marshall in his speech of June 5, 1947, they were confronted by the necessity of working out a joint program for their own recovery. They then had to match the commodity and equipment requirements of such a program against their own resources so as to arrive at estimates of needs from non-European sources.

The remarkable fact is, not that the figures that their experts worked up can in many cases be questioned, nor that they left much to be desired in allowing for regional, as opposed to nationalistic, development, but rather that they were able to agree upon anything at all definitive. Equally noteworthy was the fact that they were able to do it in a relatively short time. The speed with which the report was turned out undoubtedly accounts for its omissions and ambiguities.

Such an accomplishment was made possible by the establishment of a number of technical subcommittees which, largely through the use of questionnaires addressed to the participating countries, prepared reports on requirements and production in the fields of food and agriculture, fuels and power, iron and steel, transport, timber, and manpower. The final report of the Paris Conference (known as the Report of the Committee of European Economic Cooperation or, more briefly, as the CEEC report) was transmitted to the United States Department of State on September 22, 1947, and shortly thereafter was made public.

The reports and findings of the technical subcommittees were turned over to a Balance-of-Payments Subcommittee that used them to construct an over-all balance-of-payments picture. Comparison of the various sections of the CEEC report is rendered difficult for a number of reasons, an important one of which is that the reports of the technical commodity subcommittees included estimates of the needs and availabilities of the dependent overseas territories of the United Kingdom, France, Netherlands, and Belgium, whereas the over-all balance-of-payments figures apply to the mother countries only. Comparison of the various parts of the CEEC report with one another, or with the Administration's "Outline" (Proposals of the U. S. Executive Departments), which includes the dependent territories in its estimates of requirements, is therefore a difficult task.

The Paris Conference estimated that the 16 participating countries would have a net balance-of-payments deficit with the American Continent in 1948 amounting to approximately 7.6 billion dollars. It was estimated that, in addition, the combined deficit of their overseas dependent territories would amount to $460,000,000 bringing the total deficit of the participating countries and their overseas territories to a little more than 8.0 billion dollars.

They then estimated that the International Bank for Reconstruction and Development would be able to finance capital equipment (other than agricultural and mining machinery) amounting to about $900,000,000, thereby leaving to be financed a net over-all deficit of 7.1 billion dollars.

D. SCREENING BY UNITED STATES EXPERTS

Experts in the various departments of the United States Government were immediately impressed by the fact that the requirement figures had been inadequately screened, both in the light of the needs themselves and the availabilities of certain of the items in short supply. In fact, because of the nature and speed of the operation, about all that the Paris Conference had been able to do was to add up the individual country estimates of commodity requirements and present the totals as the needs of the entire area. Such a procedure, obviously, fails to discount the natural tendency to overstate national requirements. It also tends to inflate the requirements of national economic ambition as contrasted with the needs of the nations as members of a closely coordinated economic group.

Upon receipt of the report of the Paris Conference the State Department created a number of interdepartmental commodity committees to review the data. In general they paralleled the technical committees that had been set up at Paris with several additions. All of them except that on petroleum, were headed by experts from either the Department of Agriculture or the Department of Commerce.

The data on petroleum were reviewed by the already-existing interdepartmental committee headed by an expert from the Department of State. Interdepartmental "country" committees were also established together with a working group on the over-all balance of payments picture.

The commodity committees first concentrated on minimum requirements without regard to availabilities. With regard to food, account was taken of the needs of the various populations on the bases of calorie intake, the need of proteins and fats and oils, and of historical differences in living standards. Emphasis was then shifted to estimates of European indigenous production and the possibilities of intra-European trade. The net requirements of the 16 countries, as a group, were finally set against estimated global availabilities.

In some cases the requirement figures were scaled down because of world shortages and substitutions of goods in more abundant supply made. Thus, the requirements figure for bread grains was cut to 79 percent of the CEEC figure, but the figure for processed milk was increased over the CEEC estimate by 44 percent. Similarly, the estimated requirement of 1,400,000 tons of steel scrap was eliminated altogether and in substitution for it the estimated requirement for finished steel was increased from 449,000 to 1,200,000 tons.

To assist in this phase of the work a number of the European technical experts who had assembled the original CEEC data at Paris were called to Washington to answer questions by the United States experts.

Throughout all of the work the experts relied heavily upon the reports of the Krug, Nourse, and Harriman committees. In some cases supplemental questionnaires were circulated to the participating countries in order to round out what had been provided by the experts at Paris. In general, estimates were first made in terms of physical quantities which were later translated into dollar equivalents.

The work of these committees served as the basis of the administration's Outline of European Recovery Program which was submitted by the Department of State to the Congress, together with the administration's proposed draft legislation, on December 19, 1947.

E. THE ADMINISTRATION PROGRAM

Consideration of the problem of United States financing of the European recovery program for the first 10 months involves five basic factors:

(*a*) The estimated dollar deficit of the participating countries over the 15-month period, April 1948 to June 30, 1949, with the Western Hemisphere.

(*b*) Dollar funds which the participating countries might be expected to obtain from sources other than new United States funds.

(*c*) Additional funds ($200,000,000) needed to build up the volume of shipments from the Western Hemisphere to western Europe.

(*d*) Segregation of authorized funds as between the Department of the Army and the Economic Cooperation Administration.

(*e*) Reducing the financial requirements from a 15-month basis, as presented by the executive branch, to a 12-month period.

The estimated balance-of-payments deficit of the participating countries, including western Germany, with the Western Hemisphere for the 15-month period, April 1, 1948, to June 30, 1949, is 8.5 billion dollars. An additional $200,000,000 was included to cover a portion of the uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere. The dollar deficit of the participating countries to be financed, therefore, is about 8.7 billion dollars.

The executive branch estimated that almost 1.3 billion dollars of dollar funds could be obtained in this 15-month period from the International Bank, the Export-Import Bank, private investors, and by credits extended by other Western Hemisphere countries and certain of the participating countries. Deducting that 1.3 billion dollars from the uncovered dollar deficit of 8.7 billion dollars leaves 7.4 billion dollars of financing which would have to be met by new funds from the United States.

The executive branch, in rounding out its estimates, also had to take account of the increased flow of goods from the Western Hemisphere to the participating countries. Of the shipments going forward in the 15-month period, an estimated $600,000,000 was in the pipe line at the start of this period. The rate of shipments would increase during the period. In order to sustain that increased rate of shipments, the executive branch estimated that $800,000,000 would be in the pipe line as of June 30, 1949. This net increase of $200,000,000 in the pipe line would also have to be financed with new United States funds, making 7.6 billion dollars in all.

This dollar deficit of 7.6 billion dollars for the 15-month period, the executive branch recommended, should be financed by appropriating about $800,000,000, as part of the Department of the Army's budget to prevent disease and unrest in occupied areas, and 6.8 billion dollars to the European recovery program.

F. ADJUSTING THE FINANCIAL REQUIREMENTS FROM 15 TO 12 MONTHS

The executive branch also submitted estimates of an illustrative pattern of obligations, shipments, and expenditures which might take place in the actual operation of a 6.8 billion dollar European recovery program in the 15-month period. Estimatd shipments financed by new United States funds under the European recovery program would amount to 1.5 billion dollars in the 1949 April–June quarter. Consequently, when the Senate reduced the initial period of the program from 15 to 12 months, this 1.5 billion dollars was deducted from the requested authorization of 6.8 billion dollars for the first 15 months.

In authorizing 5.3 billion dollars for the European recovery program for the first 12-month period, this committee recommends that the executive branch's requested authorization be accepted and that the period be adjusted from a 15- to a 12-month basis. In this manner the basic request of the executive branch for the European recovery program will be preserved.

IV. Dollar Requirements and Availabilities

A. NATURE OF THE PROBLEM

Even though both the Paris Conference report and the administration program approach the import requirements of the 16 participating countries from the point of view of individual commodity needs, the total requirements of United States financial assistance are closely related to the estimated combined net deficit in the balance of international payments of those countries with the Western Hemisphere. The 6.8 billion dollars requested to be authorized in the administration program for the initial 15-month period was derived from the estimated balance-of-payment deficit based on estimated commodity needs, exports, and other factors as follows:

Summary of proposed financing of balance-of-payments deficit of the participating countries, 15 months, Apr. 1, 1948, to June 30, 1949

[In millions of dollars]

1. Deficit with Western Hemisphere of all countries including western Germany:	
(a) In July 1, 1947, prices	(7, 962)
(b) In current prices	8, 527
2. Uncovered deficit of Bizonal Germany with nonparticipating countries outside the Western Hemisphere	200
3. Total to be financed	8, 727
The deficit is to be met:	
4. From sources other than new U. S. Treasury funds:	
(a) From International Bank and other sources in the United States [1]	500
(b) From other Western Hemisphere countries	700
(c) From participating countries on cash basis [2]	85
Subtotal	1, 285
5. From new U. S. Treasury funds:	
(a) Grants and loans for procurement in the United States	3, 805
(b) Assistance for offshore procurement	2, 615
(c) Department of the Army GARIOA [3]	822
Subtotal	7, 242
6. Uncovered deficit of Bizonal Germany (same as item 2 above)	200
7. Total U. S. Treasury financing with new funds	7, 442
8. Authority to obligate funds for procurement of items to be delivered in subsequent years	200
9. Total authorization for ERP	7, 642
10. Of which to be covered by Department of Army's appropriation for GARIOA	822
11. Authorization requested for ECA	6, 820
Above in round amount	6, 800

[1] Includes disbursements from unutilized balances of existing Export-Import Bank credits as well as new private investment and disbursements from International Bank loans whether new or already granted.

[2] Represents the deficits with the Western Hemisphere of Portugal, Turkey, and Switzerland, where such are recorded, adjusted to account for price changes. Surpluses of these countries with the Western Hemisphere are not deducted from the gross amount of the recorded deficits.

[3] Government and relief in occupied areas. This is that portion of appropriation requests to be made by the Department of the Army to meet requirements to prevent disease and unrest in the bizonal area of Germany.

Some question might be raised as to whether the balance-of-payments approach is the most satisfactory approach to the problem. Merely to balance the accounts of a country that finds itself in continued financial difficulties would not, in and of itself, assure that fundamental and necessary corrective measures will be taken. There is danger that if dollars are too easily forthcoming to balance the accounts, the western European nations will fail to make the fundamental adjustments in their economies that are necessary to assure essential improvement in productive efficiency. These steps include an increase in domestic production, the lowering of trade barriers against intra-European trade, the mitigation of exchange controls and other devices of a nationalistic economic character, the integration of inland transport, and the rationalization of power resources. The above estimates were based on the assumption that these steps will be taken.

The fundamental needs of western Europe for materials and capital equipment to accomplish some of these broad economic objectives should be filled as promptly as possible. Such an approach shifts the emphasis of the argument away from the precise number of dollars needed over into the area of the general nature and administration of the program. The corrective cooperative steps that the western European countries should take throughout the period of recovery are at this juncture necessarily indeterminate. Certain generalizations can be made regarding the desirability of working together, but the precise measures that should be undertaken in each of the lines of activity can be answered only as time passes. An alert, practical-minded administration, therefore, is the prime requisite for the success of the European recovery program. The more that our thinking is geared into the "real wealth" aspects of the problem, and not merely the financial aspects, the greater will be the likelihood that the objectives of the program will be attained.

B. MOBILIZATION OF EXISTING DOLLAR RESOURCES

The administration's program estimates that $1,285,000,000 of the $8,727,000,000 to be financed during the first 15 months of ERP can be met from sources other than new United States Government funds. Of this amount, $700,000,000 is expected to be contributed in the form of loans and grants to European recovery program countries by Western Hemisphere countries other than the United States. Unutilized balances of existing Export-Import Bank credits, new private investment and disbursements from International Bank loans (new or already granted) are estimated at $500,000,000. The remaining $85,000,000 represents cash settlement of the expected deficits of Portugal, Turkey, and Switzerland, whose resources of dollars are ample.

The administration's estimate that not more than $1,285,000,000 can be mobilized, without the liquidation of foreign investments, seems conservative. Of course, no one can now tell to what extent private capital can be induced to enter the foreign lending field. Much depends upon the psychological factors involved.

(*a*) *The International Bank.*—The administration outline lumps together the resources of the International Bank and the Export-Import Bank and estimates that together they can provide only

$500,000,000. In the light of information already made public this appears to be a conservative estimate. Total gold and dollar assets of the International Bank, as of December 31, 1947, totaled $687,000,000. Of this amount about $197,000,000 represented loans authorized but not disbursed, leaving a net free United States dollar balance of $490,000,000. The United States is committed to a guaranty toward repayment of securities of the Bank up to a total of $3,175,000,000, of which $885,000,000 have been issued to date. The remaining free United States guaranty thus amounts to $2,290,000,000, and the total actual and potential United States resources of the Bank amount to $2,780,000,000.

Although there has been testimony by qualified experts to the effect that it will not be feasible for the International Bank to finance more than 200 to 250 million dollars of the cost of foreign economic recovery in the initial 12-month period, the committee believes that this figure is too conservative and that the Bank may well be able to support a larger figure. Much depends, of course, upon the condition of the bond market.

There is merit in the view that the authorizations of the recovery program should not be cut too low, in reliance upon other agencies. But, to err in the opposite direction and to minimize the likely effectiveness of instrumentalities that have already been established for dealing with this sort of problem would be poor policy.

(*b*) *Export-Import Bank.*—No figure is given in the administration's plan for the Export-Import Bank as such. Its potential contribution is lumped together with that of the International Bank in the $500,000,000 figure for the initial 15-month figure.

The net free lending balance of the Export-Import Bank on December 31, 1947, amounted to $497,000,000. Scheduled repayments of loans outstanding for three quarters of 1948 and one-half of 1949 (15 months) amount to $136,000,000, and the undisbursed balance of outstanding loans to the CEEC countries amounts to over $312,000,000. Total available dollar resources of the Export-Import Bank, as of December 31, thus amounted to approximately $845,000,000.

Relative conservatism will naturally be exercised in the extension of Export-Import credit as such. Even so, the inclusion of $200,000,000 as a likely estimate of dollar funds that might be made available to the ERP countries by the Bank does not seem unreasonable.

(*c*) *Collateral loans.*—Collateral already pledged by the United Kingdom against a loan by the Reconstruction Finance Corporation in 1941 is presently valued at $900,000,000, although the loan itself has been amortized from the original $425,000,000 to $176,000,000. It has been estimated that the collateral could support a loan of as much as $700,000,000. In addition, long-term investments in the United States of the 16 ERP countries have been estimated by the National Advisory Council at over 4.9 billion dollars, divided about equally between securities and other types of property holdings.

An estimate that sufficient of this collateral might be mobilized to service new loans amounting to $500,000,000 would seem to be conservative.

It does not follow from this, however, that all or any of these foreign-held investments should be liquidated to help finance the recovery program, unless to do so would improve the balance-of-payments position of the foreign nations who hold them. To illustrate, if investments held by foreign nations to the amount of $1,000,000,000 yield an income of, say, $40,000,000 per annum, they provide an "invisible" transfer of that amount, each year, which helps pay for imports from the United States. If such securities were to be liquidated and transferred to American ownership it would eliminate this annual foreign credit. The only justification for such liquidation would be if the transfer of the investment to other fields were to yield a return greater than $40,000,000 per year. Even then, it would have to remain in foreign ownership if the annual balance-of-payments credit were not to be eliminated. Wholesale liquidation would thus represent a brand of "living on capital" that might do considerable harm to the over-all international balance-of-payments picture and to the economic recovery of western Europe.

This is not to say, however, that foreign-held securities should not be used as collateral for loans by the United States. But, even so, unless the loans are non-interest-bearing, or almost so, some of the same objection would apply as in the case of outright liquidation. If the annual income-yield of the collateral is used up in servicing the new loans, the balance-of-payments credit represented by the annual income is impaired and future income is mortgaged for currently expendable dollars.

(*d*) *Other Western Hemisphere countries.*—Information and estimates regarding the part that the remainder of the Western Hemisphere, particularly Latin America, is expected to play in the European recovery program are scarce.

The $700,000,000 included in the administration program as the share to be borne by other Western Hemisphere countries seems rather low in the light of the favorable international position of certain of the Latin-American countries (notably Cuba, Argentina, and Brazil), and in view of the plans to spend 1.7 billion dollars of the 6.8 billion dollars in offshore procurement in Latin-American countries.

(*e*) *Gold and dollar balances in excess of currency reserve.*—According to United States Treasury officials the "excess" gold and dollar balances of Switzerland, Portugal, and Turkey amount to 1.5 billion dollars. Since this is "free" gold, in the sense that it is not needed as currency reserve, it might advantageously be used to help implement the ERP philosophy of mutual aid. These three countries were all participants in the Paris Conference and it is to be hoped that some of this might be available in the form of long-term loans to participating countries that are experiencing serious balance-of-payments difficulties.

C. RANGE OF VARIABLES IN ESTIMATING REQUIREMENTS

There are so many variables with regard to crop conditions, prices, and availabilities of certain commodities that anything approaching a firm estimate of the over-all dollar requirements of ERP would be quite illusory. These variables are present regardless of the competency of the technical experts who make the estimates; they are inherent in the situation itself.

Thus, with regard to agricultural and food products alone, the 15-month requirement figure of which is in the neighborhood of 4.3 billion dollars, the price situation is so uncertain that a 20-percent rise or fall would occasion a plus or minus difference in the estimate of $800,000,000, or a range of variation of 1.6 billion dollars.

Should favorable reports regarding crop conditions in Europe and north Africa materialize it is possible that this year's harvest might reach 85 percent of prewar. On the other hand, should the dry phase of the climatic cycle become a reality in 1948 in the Northern Hemisphere, the supply situation might again become acute and prices rise accordingly. A 20-percent rise or fall in price, therefore, seems conservative.

Although steel and petroleum are of vital importance to the European recovery program, as well as to our own economy, the dollar volume is relatively small in the total program. In view of the tight supply situation in steel a substantial cut, percentagewise, might be necessary. But, since the dollar volume is so small ($453,000,000 in the CEEC report and $325,000,000 in the administration program) even a 50-percent revision in the figure would amount to only a little over $200,000,000.

In view of the present situation confronting this country with regard to petroleum supplies, it seems likely that even the revised requirement figures might prove to be too high. Therefore, a downward variation of as much as $200,000,000 might materialize.

There is also a wide range between the amounts that it would seem economically possible for the other Western Hemisphere countries, particularly Latin America, to contribute to the program and what experience tells us will actually materialize.

Undoubtedly the range of variables in many of the other estimates would be proportionally as great as the ones here mentioned. The variations herein discussed cover a range of anything from a $1,000,000,000 increase in the cost of the program to a decrease of as much as $1,000,000,000. The fact that in a program of this size a possible range of as much as $2,000,000,000 appears possible illustrates how futile it is to spend too much time debating the exact size of the program. No one can tell now whether in the 12 months before us 5.3 billion dollars will be necessary or whether it can be cut back safely to 4.3 billion dollars, or whether even without a further turn for the worse in European political events the contemplated program might cost as much as $6,000,000,000 or $7,000,000,000.

But, this much we do know—that, in view of the overriding importance of the objectives sought, it will be much safer for the Administrator to have access to too many, rather than too few, dollars.

D. WHERE WILL THE MONEY BE SPENT?

The so-called "Illustrative Composition of Imports and Commodities and Services from the Western Hemisphere, April 1, 1948, through June 30, 1949, and Possible Sources and Distribution of Financing," issued as a press release by the Department of State on January 20, 1948, shows how the 6.8 billion dollars sought for the European recovery program might be spent among the recipient countries, by commodity categories. In view of all the circumstances, including availabilities and usual trade channels, it shows, by country, how many of the new dollars might go for the various commodities and how much might be purchased out of the countries' own earnings and other dollar resources. The figures are illustrative only and in all probability vary widely from what will probably actually occur. Nevertheless, they are based on guesses by informed experts and are useful as an indication of what might occur.

The figures show that for the 15-month period under consideration total imports of the CEEC countries are estimated at 11.8 billion dollars. Other dollar payments, including estimated freight, bring their total dollar payments to 12.9 billion dollars. It is estimated that, under the European recovery program, these dollar demands will be met as follows:

	Billion
From the countries' own dollar earnings from exports and services	$4.9
From dollar sources other than new United States funds (International Bank, etc.)	1.2
From new U. S. Government funds	6.8

The commodity categories are not given in as great detail as one would like to see, and a large amount (4.2 billion dollars) is left unclassified in the "other imports" classification. Nevertheless, the break-down is fairly complete so far as food, fuel, and fertilizer items are concerned.

These data, summarized from the State Department's Illustrative Composition, are as follows:

[In millions of dollars]

Category	Method of financing			Total
	By own dollar earnings	Sources other than new United States funds	New United States funds	
Food, fuel, fertilizer	755	618	4,185	5,558
Other raw materials	383	80	986	1,448
Listed capital equipment	36	53	489	578
Other imports	3,211	408	609	4,228
Other dollar payments	[1] 555		[2] 592	1,147
Total	4,940	1,159	6,861	12,960

[1] $236,000,000 freight and $319,000,000 other dollar payments.
[2] All freight

NOTE.—See tables in the appendix II for detailed break-down.

E ECONOMIC AID FOR CHINA

China's economy has deteriorated steadily since the defeat of Japan. This deterioration has been due to the devastation which civil warfare has added to the disorganization and destruction brought about by the war against Japan, and to the difficulties faced by China, in the circumstances, in mobilizing effectively its available resources. It has taken place despite large amounts of foreign aid extended or available to China since VJ-day. The United States alone has extended aid to China amounting to somewhat over 1.4 billion dollars since VJ-day. In addition, the Chinese Government has expended more than $700,000,000 of its own foreign exchange holdings.

The civil warfare in China has seriously dislocated economic activity in two major respects. First, its physical impact has been felt through the destruction and dislocation of transportation and industrial facilities, and in the isolation of raw material, fuel, and food sources from centers of consumption and ports of export. Second, the monetary and financial impact of civil war is felt throughout the entire economy in the disruptive consequences of inflation resulting from the issuance of paper currency in order to finance mounting Government deficits caused mainly by military expenditures. Inflation impedes the production and movement of goods for domestic consumption and export, and stimulates speculation and hoarding. It thus intensifies existing scarcities, and requires ever-larger Government appropriations.

China needs economic assistance if she is to be able to purchase essential imports and to undertake urgent reconstruction projects.

Her essential commodity needs, for the 15-month period ending June 30, 1949, as set forth by the Department of State, amount to $510,000,000. The items, and their estimated cost, including insurance and freight, are as follows:

Cereals (wheat and rice)	$130, 000, 000
Cotton	150, 000, 000
Petroleum and petroleum products	110, 000, 000
Fertilizer	30, 000, 000
Tobacco	28, 000, 000
Metals	24, 000, 000
Pharmaceuticals	5, 000, 000
Coal	3, 000, 000
Replacement articles for existing capital equipment	30, 000, 000
Total	510, 000, 000

The cost of essential reconstruction projects in China has been estimated at $60,000,000.

Although the authorization for economic assistance to China in the current bill falls short of the requested $570,000,000, it adds $150,000,000 for military assistance, thereby bringing the total authorization for China for both economic and military-type assistance back to the $570,000,000 figure.

V. Analysis of Title I of the Bill: European Recovery Program

A. BASIC OBLIGATIONS ASSUMED AS CONDITIONS OF PARTICIPATION IN THE EUROPEAN PROGRAM

The nations within the scope of this program will qualify for assistance through the steps, first, of joining with the other nations concerned in the program of cooperation for restoration of the European economy and, second, of signing a bilateral agreement with the United States.

The basic agreements will be specific and intricate. They must be predicated on and derived from the details applicable to each respective participating country. The work of negotiating them necessarily will be postponed until the Congress has finally determined the basic conditions. To afford the time necessary for the making of proper agreements and yet to avoid a hiatus in getting the program under way, provision is made for limited interim assistance.

The bill as originated by the President specifies that for 3 months any country signifying by definite action its intention of going along with the program may be extended any appropriate aid authorized by the program. The bill as it comes from the Senate, in addition to the above, specifies that any CEEC nation may be extended relief-type aid through June 30, 1948.

The substance of the cooperative pledge is of such importance as to merit specific review. It is stated as follows in the CEEC report:

In order to insure that the recovery program is carried out, the 16 participating countries pledge themselves to join together, and invite other European countries to join with them, in working to this end. This pledge is undertaken by each country with respect to its own national program, but it also takes into account similar pledges made by the other participating countries. In particular, each country undertakes to use all its efforts:

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

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

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

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

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

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

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

As provided in the requirements for the bilateral pledges to be undertaken by the recipient countries with the United States, the substance of virtually all the above undertakings are made integral parts of the structure of the program envisaged by this proposed act. The basic objectives considered immediately below are those which will involve virtually every participating nation. Others will apply in specific instances and are considered in relevant parts of the report.

The bill in its present form, and as it comes from the Senate, makes the undertaking of cooperation with the other nations of Europe a more specific condition precedent than does the draft proposed by the President or does the Herter bill.

The pledges to be required in the bilateral agreements include the undertaking of steps necessary to eliminate abnormal outside aid. This is the basic requirement in regard to production. The committee found that the bill as it comes from the Senate, the bill as proposed by the President, and the Herter bill were alike in principle on this basic requirement.

The pledges to be required in regard to money and finance were likewise similar in the three bills. As proposed by the President, the undertakings would be in the direction of stable currency, proper exchange rates, and restored confidence in the national currencies.

The bill as it comes from the Senate and as now reported adopts approximately the same language, changing the word "proper" to "valid" and specifying balanced budgets as a goal. The Herter bill specifies the arrest of inflation as an objective, but in general conforms to the language of the other bills. In the committee's judgment, the language of any of the bills would suffice as a directive for the bilateral agreements.

During the hearings the committee's attention was drawn to the idea of stipulating the methods by which the fiscal objectives should be reached. A formula more explicit than the words of the bill as reported and yet cut to a pattern to fit all participating nations appeared impracticable. In this respect, as in many others, the quality of the result to be produced must be left to the judgment and the energy with which the program is administered. It cannot be predetermined by nice definition.

Regarding international trade, the basic terms of the bilateral agreements will require cooperation to increase the interchange of goods and services and to reduce trade barriers. The language is like that originally proposed by the President. It differs from that of the Herter bill principally in applying such cooperation in commerce to trade with all nations rather than to commerce with other participants.

One of the significant basic obligations is that which refers to the proper use of the resources of the participating country, including those made available under the program. The bill as proposed by the administration emphasizes this aim. The bill as it comes from the Senate adds language obligating the participating nations to take measures to locate and control assets in the United States owned by their nations.

The committee gave mature consideration to varied proposals for forcing the participating nations to take explicit measures to pledge the assets of their nations as security or otherwise to bring them actively to the support of the program. In the last analysis the committee was restrained by the consideration that more specific requirements might force the wholesale liquidation of such assets and thus unwittingly conduce to the destruction of a seedbed of private initiative. Here again, in the committee's judgment, the results must depend on the force and wisdom of the administration and the good faith of the participants rather than upon rigid prescriptions.

Also related to the proper use of resources is the aspect of possible reexport of goods made available under this program to nations that are hostile to its objectives, thus contributing to the frustration of the program's objectives and impairing the interests of the United States. Specific language adopted by the committee and herewith recommended to the consideration of the House charges the Administrator to interdict the shipment to participating countries of commodities or products to be used in the production of commodities or products which are intended for export from the participating countries to nations which have declared their hostility to the European recovery program and which are of the type which the United States, under its export-control policies, would not ship to such nations. It would be a paradox if the resources of the program were to be employed to strengthen the hands of its enemies. It is this paradox, of such serious implication not only to the integrity of the program but also to the security of this nation, that the committee seeks to avoid.

The committee, in the course of hearings, heard many other suggestions for inclusion of special terms in the basic agreements.

The idea of imposing special conditions to protect private initiative against the threats of collectivism was brought up by several witnesses. Some of them urged stipulations that the participating countries must pledge not to nationalize industry or take any measures to impair free, private, competitive enterprise. In view of the delicacy of attempting to interfere with internal constitutional provisions, others urged that the committee avoid conditions which, because of their repugnance to the recipient countries as interference in their domestic concerns, might defeat the very ends the program is intended to promote.

The committee has elected to depend upon the spirit of administration rather than upon rigid initial bargains. It has added a provision, however, intended to protect the interests of American business operating in the participating countries. It would require the recipient countries to pledge to submit to arbitration questions involving compensation of American nationals in event of governmental measures affecting property rights and concessions—subject to espousal of the claim by this Government.

The special place of Germany in any plans for restoration of Europe is apparent in any objective consideration of the problems. The point need not be labored here that German recovery is a great factor in western European revival. The crux is the issue on dismantling of German industrial plants. The committee is not of a unified view as to the merits of what has been done and as to the merits of what should be done. The evidence on dismantling was mixed. None can deny, however, that the dismantling program was undertaken as a reparations measure before a joint program for European recovery had been brought into reality. Few would dispute that the new circumstances of the recovery program would justify a reexamination of the merits of dismantling. Nevertheless, the reparations program is based upon international agreements to which this Nation has adhered. A national statute is of limited effect in upsetting an international agreement. The committee, in recognition of the relevance of German plants to German recovery, and of German recovery to European recovery, has directed the seeking of agreements wherein the participating countries will undertake to subordinate their property rights in reparations equipment to the principle of locating plants in the areas where they will contribute most effectively to the restoration of European productivity.

The inclusion of the zones of western Germany in the CEEC program is itself a significant step in the direction of improving western German conditions. A second matter in solving the problems of peculiar importance to Germany and of general importance to Europe as a whole is that of distribution of manpower. The committee has not proposed to write conditions in this respect into the basic agreements. It does propose, however, to direct the Administrator to seek agreements for the most effective use of manpower. The objective includes the integration into the recovery programs of the various participating countries of a fair share of the displaced persons who, because of the conditions of the postwar world, are kept from becoming effective participants in economic life. The authority of the International Refugee Organization as the agency whose mandate it is to see to the protection of these homeless people is recognized in the provision. It is anticipated that if brought into effective use, this provision will assist in contributing to the solution of the displaced persons problem. It is the hope that arrangements will be worked out whereunder resettlement in family groups will be undertaken rather than emphasizing the resettlement only of the strongest and ablest of the displaced persons.

Finally, as it comes from the Senate and as recommended to the House, the bill includes a statement of the understanding that the nations still holding German prisoners of war are undertaking to repatriate them by the end of this year. This is the case. It is not intended to intervene in a repatriation schedule based upon international agreement. It is intended only to indicate the watchfulness of the United States over the performance under such agreement.

Finally, there is the matter of special publicity. The Herter bill includes the idea of making full publicity of American assistance a condition for the basic agreements. A number of witnesses supported this view. Others pointed out that the United States can, with better effectiveness, undertake to see to the adequacy of publicity through its own devices. The bill as originated and as now recommended includes an obligation to make available full information regarding assistance. It does not name specific publicity undertakings. The committee has added a provision that would extend the guarantee of convertibility of the return on approved American investments to information media already operating.

A suggestion made recurringly to the committee was the idea of including in the basic agreements an undertaking of a defensive alliance. In the committee's view, notwithstanding the arguments that can be brought to support the idea of an alliance, it would be inadvisable to attempt to provide it here. The Administrator should confine his negotiations to economic interests; he should not be charged with undertaking military security.

Another recurring idea suggested for inclusion in the basic agreements was that of bringing about definite steps toward political amalgamation. The Union of Europe is a consummation devoutly to be wished. But the impulse must come from the participants. It is inherent in the entire European recovery program that it is a gesture of encouragement to such an end. This is stated at several points in the bill.

B. THE MECHANICS OF THE PROGRAM

The bills considered by the committee were alike in the scope and variety of aid to be permissible under the contemplated programs. Commodities of all kinds, transportation, storage, repairs, all kinds of service, the expenses of persons hired as technicians in the economies concerned—such were the things which the United States was to make available to impoverished Europe. No restriction as to source was to be provided other than a directive, explicit in all but the President's bill in its original form, to avoid a drain on United States resources. (This provision is particularly emphatic with respect to the procurement of petroleum.)

Flexibility in purchasing is provided. In the administration bill the participating countries, private importers in the participating countries, agencies of this Government, international agencies, and private investors may do the purchasing with funds and credits to be made available.

Withdrawals from the funds available for the administration of the program may be made by advances or reimbursements to the recipient countries, by reimbursements to United States Government agencies, or reimbursements or advances to international agencies, and by making guaranties to private investors spending money on projects approved as conducing to the purposes of the bill up to the amount of money they put up—these guaranties being limited only to convertibility into dollars of what they earn and not extended to business risk.

In the bill as approved by the Senate and as now recommended by this committee, the Administrator is granted great flexibility in making arrangements whereby private channels of trade may be used to the maximum extent in this program. Withdrawals of funds on letters of commitment and upon presentation of contracts, invoices, and other validated business documentation is permitted. This committee has added language directing attention to the maximum use of private trade channels subject to safeguards for the purposes of the program.

Flexibility in accounting, contracting, and like aspects is provided. This is essential to the working of the program in a businesslike fashion. It is obvious that statutory requirements that usually would apply prohibiting advance payments out of public funds for purchases, requiring advertising on bids for purchases, requiring the opportunity for bidders to be present at the opening of contracts, restricting purchases to United States-produced goods, limiting employment on Government contracts to an 8-hour day, and the like—have no place in a program that must work in a variety of conditions and countries.

Accordingly, an escape from provisions that would hamper the program and serve no public interest—subject to Presidential discretion—is included. It is believed that this will give the Economic Cooperation Administration flexibility equivalent to that obtainable under a corporate form. In addition, the Administrator is authorized to set up a corporate instrumentality if such is found necessary. Settlement of accounts for procurement abroad on documents as prescribed by the Administrator is provided.

A novel provision in the bill related to the encouragement of private efforts to relieve suffering in Europe. As originated in the Senate, this provision authorizes the Administrator to defray ocean freight charges of relief supplies forwarded by voluntary agencies and of relief packages sent by private individuals. The subsidy is confined to ocean freight charges in the Senate bill. The committee has added domestic port charges. It applies only to packages and supplies destined for countries on a grant basis in the program in the Senate bill. The committee has extended it to western Germany and Trieste. The committee has also written in a provision for registration with and approval by the Advisory Committee on Voluntary Foreign Aid of the Department of State insofar as voluntary agencies are concerned. A further encouragement to voluntary foreign aid is provided in a permissive power for the Administrator to make agreements with participating countries for using for local transportation costs the local currency deposits provided for in the grant provisions of the title.

C. ECONOMIC IMPACT OF THE FOREIGN-AID PROGRAM ON THE UNITED STATES ECONOMY

The economic impact of the foreign-aid program upon the United States economy as a whole, as opposed to its effect upon individual commodities and industries, needs to be considered from both the short-term and the long term point of view. The short-term view is concerned primarily with the effects of the advance of substantial amounts of goods and funds at a time when the Nation is in the inflationary phase of the economic cycle. The longer-term view is concerned with some of the implications of the aid program on the international economic position of the United States, particularly with regard to commercial policy.

Generally speaking, the outstanding characteristic of an inflationary situation is an excessive demand for goods, expressed in terms of effective money demand, relative to the supplies of goods available. Such a situation can be brought about by either expansion of credit and increases in the supply of money or by decreases in the supplies of goods, or both.

Most countries today find themselves in an inflationary spiral. In war-devastated areas, notably Europe, acute deficiencies in the output of food, coal, steel, clothing, and other articles for immediate consumption are still widespread. Although physical production in certain countries is already close to, or even above, the prewar rate the tremendous vacuum of goods has not yet been filled. The shortages, furthermore, are frequently in the very lines that are needed most to increase production, such as coal and steel. The pent-up demand for consumer goods throughout the war period when a large proportion of productive effort was applied to war goods is now making itself felt.

Not only are goods scarce but the supply of money is large. During the war years countries financed themselves by the traditional borrowing methods that resulted in substantial increases in their monetary supplies and bases for credit expansion. The phenomenon is applicable, but is not confined to, the United States; it is world-wide.

No development could contribute more to alleviate world-wide inflationary pressures than the achievement of the objectives of the foreign-aid program. It is the purpose of the program to provide such temporary help as may be needed to restore the economic production of war-devastated countries, particularly of the countries of western Europe. If it is successful, it will relieve immediately those aspects of the inflationary problem which reflect inadequate production. Greatly increased production of food, coal, and steel in Europe, once the world's workshop, would go far to remove the most acute shortages that are pushing up prices throughout the world.

Although the causes of inflation in the United States are mainly internal, deliveries of goods abroad under the foreign-aid program inevitably will add somewhat to existing domestic inflationary pressures. Until its economy is again self-supporting, the survival of western Europe on an independent basis will require large net imports of foodstuffs, raw materials, and manufactured goods. The need for these deliveries falls on this country at a time when it is going through a period of strong internal inflationary pressures. In these circumstances any foreign demand for our products in excess of our imports is necessarily inflationary in its immediate impact. Net merchandise exports grew to approximately $9,000,000,000 in 1947, and this has been a factor that has accentuated domestic inflationary forces.

In the aggregate our gross national product in 1947 was $232,000,000,000 and our net merchandise exports to all countries of approximately $9,000,000,000 constituted 4 percent of the gross product.

When the problem is considered from this point of view, that is, in its aggregate impact, it is apparent that the over-all amounts involved in the foreign-aid program in and of themselves do not impinge critically on our ability to supply, especially as compared with total exports in 1947. Any net export of goods is, of course, a subtraction from the amount that might otherwise be available, and to this extent diminishes the amount of goods in the home market. The extent of this subtraction, as an aggregate, however, is not of sufficient size to indicate a critical situation, particularly when it is remembered that our total net exports in 1948, with a foreign-aid program, will not vary greatly from the amounts exported in 1947, and that in 1947 the volume of goods remaining available for consumption within the United States after exports exceeded all previous levels. From an aggregate point of view, therefore, it is apparent that the prevalence of broad inflationary pressures in the American market is primarily internal in origin.

Optimistic though the picture is, so far as the basic wealth of the Nation is concerned, there is grave danger in failing to look beyond the relationship of aggregates and into some of the details.

Although the export surplus, both recent and likely under a new foreign-aid program, is small in relation to the real income and the basic resources of the country, the impact of exports happens to be greatest in those very fields in which commodity shortages both here and abroad are the most serious; namely, food (principally grains), coal, fertilizer, and iron and steel.

It is precisely because food and coal constitute an important share of the consumer's budget, and because the "cost of living" and the price of coal and steel constitute such an important part of the cost of all manufacturing, that price rises in these commodities are dangerously inflationary. When consumers find their living costs mounting higher and higher, and manufacturers similarly are confronted with rising costs of production, the pressure for higher wages and higher selling prices breaks beyond the resistance point. Unless the familiar wage-price-cost spiral is halted the consequences are likely to be serious.

It is essential, therefore, that the country be aware of the inflationary dangers that we shall face if we allow the demands for goods in tight supply to have unrestrained impact on the limited supplies of those goods. This impact is out of all proportion in its inflationary effects to the dollar volume involved.

It is from this aspect that the foreign-aid program requires meticulous analysis and special precautions to minimize its inflationary implications on the American economy. Those implications do not arise out of the aggregate size of the export surplus, which is clearly within the capacity of the American economy, but out of the export of specific commodities in critically short supply from an economy in which a considerable part of the inflationary potential created by the war is still present.

These specific inflationary impacts of the foreign-aid program can be mitigated or neutralized to a considerable extent by administrative programing procedures such as were developed during the war. It would be the purpose of such measures to maximize available supplies, to insure that the supplies produced were made available in fact for the most essential uses, and that other uses were deferred if acceptable substitutes were not available.

Although our war experience will be of great aid in devising and executing such programs for specific commodities, the general economic problem which is posed to this country is not at all analogous to that presented by the war. Then, because the war was a total war, the estimated needs of the fighting services superimposed on essential domestic needs tended to exceed the capacity of the economy to produce. Given this basic problem, administrative measures such as the above could not be restricted to a few commodities in critically short supply. All resources were potentially short and war controls inevitably spread over an ever-widening area as the war progressed. The effect of such controls, furthermore, as it was related to prices was confined in the main to minimizing the actual current price inflation. Inflationary potential in the form of the gradual accumulation of excessive liquid assets continued to mount. In fact, the success of those controls depended in no small measure on the fact that the public was willing to accumulate excessive liquid assets. Current inflation was held in check in considerable part by accumulating an inflationary potential that was bound to present future problems.

The current economic problem, however, is different. The American economy has given ample demonstration during the past year that it has the capacity in the aggregate to provide simultaneously (1) for a very high level of internal civilian consumption, (2) for a very high rate of internal investment and, consequently, for an even higher level of future potential consumption, and (3) for the essential exports required abroad for rehabilitation and reconstruction. Under these circumstances, there is no reason to expect that the adoption of administrative measures to program the use of particular commodities in critically short supply would create a situation which would require spreading such controls over wide sectors of the economy.

The inflationary impacts of critical shortages can be minimized by measures designed to program their use without thereby further accentuating the inflationary potential. Such measures need not be extended over wide areas of the economy; in fact, if they were to be broadly extended, their success would be likely to be purchased at the expense of a further increase in the inflationary spending potential.

In markets as active as those in the United States at the present time, any outlay of funds for foreign aid will add to the existing excess of internal buying power unless it is offset by a withdrawal of potentially active funds in equivalent volume. Purchases by foreign governments out of their own financial resources, as, for example, through the delivery of gold to this country or through checks drawn upon hitherto idle deposit balances, will also have inflationary effects.

If the expenditures are covered by additional taxation or by a decision to forego an equivalent tax reduction, the inflationary effect of the expenditures is offset by the deflationary effect of the equivalent tax receipts. Unless they are offset by taxation, however, dollars spent by the Treasury to acquire commodities remain in the hands of the public while the commodities go out. There are thus fewer goods left in the internal market to satisfy the demands of an undiminished supply of dollars. If purchases of commodities are made outside of the country, dollars are made available to foreigners which they are only too anxious to use to purchase in our markets under present conditions of dollar scarcity. Unless these funds are raised by taxation, or out of genuine savings, the inflationary impact on the domestic economy remains.

The inflationary impact of the present bill is lessened by the fact that the bulk of the aid will be in the form of grants and the money with which the commodities are purchased from producers in the United States will come out of regular Government revenues. It will tend to be deflationary from the point of view of the recipient country to the extent that local currency is given up in exchange for commodity imports that enter into the country's economy, thereby increasing, at least temporarily, the ratio of goods to money since the imports require no offsetting exports.

Regardless of the short-run effects of the foreign-aid program on the United States economy, there are certain longer-run implications of great consequence. The permanent economic recovery of western Europe will depend, in no small measure, upon her obtaining and holding foreign markets for her merchandise. Europe traditionally has been the workshop of the Old World, but to be a workshop she needs markets for her wares in order to be able to pay for her imported raw materials, including food.

There is, in final analysis, only one way that western Europe can acquire dollars, and that is from the United States. This does not mean that the United States must provide the dollars direct to Europe, but simply that via multiangular trade the United States must export dollars to some foreign countries. Before the war, the accustomed pattern was for the United States to send more goods to Europe than it bought from Europe and for Europe to send more goods to Latin America and other raw-material-producing countries than it bought from them, and for these countries in turn to send more to the United States than they purchased from it. Thus, the debits and credits were offset in a triangular, or multilateral, trade pattern.

The only ways, in the long run, that the United States can provide dollars is either by buying foreign-produced goods with them or by giving them away. To the extent that we choose to continue to give the dollars away, there will of course be no exchange problem. To the extent that we lend the dollars, we shall build up claims against the rest of the world which, it is to be expected, will someday be repaid. The only way that these debts can be repaid, however, is in terms of goods. For a considerable time, it is true that ultimate settlement can be postponed by the continuance of foreign lending operations in sufficient volume to offset the interest and other servicing charges on existing indebtedness.

A real danger confronting this country is that, particularly in the event of an economic recession, the pressures toward increasing our barriers against foreign-produced merchandise will be too great to resist and that our debtors will find themselves in the position in which our post-World War I debtors found themselves. The difficulty then was more our unwillingness to accept payment in goods than their ability to pay.

The position of the United States in the world today is vastly different from what it was prior to the First World War. Changes then ushered in were not recognized to exist, while we continued to pursue the traditional export philosophy of a debtor nation. Two world wars have changed this picture. The United States now is due to become the largest creditor nation in the world's history. The implications have not yet become clear to all, and therein lies a great danger to the foreign recovery program. For a creditor nation must import more than it exports, eventually and in the long run, or it will cease to be a creditor nation.

D. THE USE OF PLENTIFUL COMMODITIES AND PRIVATE SERVICES

The program is supposed to involve the procurement of large quantities of supplies of many kinds and is supposed, at the same time, to avoid undue impact upon the normal economy of the United States. This in itself means that there is a vast range of possible calculation as to how to get the best value for the program from the money spent and, at the same time, how to avoid causing shortages and too severe price reactions in the United States.

Such calculations may be performed by almost every interested party. This was reflected in the large number of suggestions submitted to the committee. Some of these called the attention of the committee to the presence of excessive stocks of some commodities that might well be unloaded through this program, with advantage to all concerned, though in some cases price factors might be such as to require a subsidy through some mechanism or other. Other suggestions, in the view of the committee, were based upon an effort to preserve the expanded position of some industry or business resulting from the war. Whereas the principle of minimizing the impact of the program upon the domestic economy was expressed by the Congress in connection with the Foreign Aid Act of 1947, and has been fully accepted by this committee, it has seemed in some cases that the purpose of a proposal was rather to maximize the impact of the program in order to preserve an economically oversized business from the impact of peace.

The most meritorious of the suggestions in this general field seemed to be the one for disposal of surplus commodities now in the hands of the Government, at prices based on their value as substitutes for ordinarily cheaper foods. The Secretary of Agriculture is specifically charged with functions in relation to this aspect of the program by section 112, subsection (d), (e), and (f). It is not, of course, to be desired that this arrangement should become permanent, with the Government engaged in the purchase of dried fruits or other such foods at high prices, and selling them at prices competitive with wheat and potatoes on a calorie basis. But it would certainly be wasteful if such food supplies already exist, and no better opportunity for sale is in sight, not to arrange for hungry people to eat them up. If such provisions have any tendency to delay necessary postwar economic adjustments in the United States, or to maintain a boom-or-bust philosophy in certain groups, that will remain a concern, and not only of this committee. Provisions in this connection are included in section 112.

Some proposals were rejected by this committee mainly on the argument that they would involve the program in serious impediments due to red tape. Suggestions for using private services "wherever possible" would make for enormous difficulty in the handling of accounts, since proof might be required of fulfillment by the General Accounting Office. Also, in the view of the committee, they would actually have very little effect on the amount of business handled through customary private channels, since this will be governed by practical consideration.

On the other hand, the use of private trade channels "to the maximum extent consistent with the accomplishment of this title" does not provide any such difficulty and serves to indicate intent and as a beneficial stimulus to performance.

E. SHIPS AS A FORM OF AID

Shipping presents a special problem as a form of aid. In the bill originally proposed transfer of merchant ships certified as surplus by the Maritime Commission was to be permitted on Presidential order. In addition, chartering of merchant ships to participating countries, to permit them to sail under foreign flags and thus avoid the higher costs of operation under American standards and the necessity of payment of the crew in dollars, was to be authorized.

The bill as reported to the Senate struck out the provision for transfer and limited chartering to 300 ships in number, dry-cargo ships in type, and June 30, 1952, in term. It was to be required that the ships chartered be not in operation at the time of chartering.

This charter provision was eliminated in the Senate and in lieu thereof was substituted a provision specifying that 50 percent of cargoes originating in the United States and related to the program should be carried in American ships if such should be available at market rates.

A special subcommittee of the Committee on Foreign Affairs was set up during the bill marking stage to look into the problem and to arrive at the crux in the conflict of viewpoints presented in testimony given before the committee.

On the point of national security, the committee was assured by the statement of Secretary of Defense Forrestal that even the original provision for transfer and charter was no threat to American defense interests. On the point of costs, it was clear that the denial of the charter provision and the requirement that half of the gross tonnage be carried in American ships would add to the costs of the operation in requiring payment in dollars, and in tending to drive shipping rates upward. The additional cost, it is apparent, would be considerable. Whether existing rates would hold in the face of the restrictions in the Senate bill was argued at length before the committee. No one denied that the additional cost would be great. Conservative estimates placed the cost of the program at $100,000,000 for the first year.

To the committee it would be an expensive paradox to divert funds from European recovery to the purpose of maintaining United States maritime operations at a level which all concede is inflated far above the predicted permanent postwar operations. The aim of the program is to restore Europe, not to save American interests from the impact of peace.

Accordingly, the committee struck out the 50 percent requirement and substituted in its place the phrase "a substantial portion." The 50-percent requirement is one that originated in connection with the carrying of cargoes floated by loans incident to American recovery. It is incongruous in a program in which America must sacrifice for the recovery of others. The committee wrote back into the bill the provision for chartering, cutting the number of dry-cargo ships affected to 200, and doubly insuring protection of security interests by specifying the instant revocability of the charters in the interest of national defense.

F. FINANCIAL CONSIDERATIONS OF THE BILL

Loans and guaranties

The hearings showed that 20 to 40 percent of the funds were to be made available as loans and the Senate bill provided that not more than 5 percent should be used for guaranties. The committee determined that at least $1,000,000,000 of the total 5.3 billion dollars should be available solely for loans and guaranties, and the bill so provides. One billion dollars is available for loans or guaranties, including not to exceed $500,000,000 for guaranties, as provided in section 111 (b) (3). These guaranties are to facilitate the use, insofar as possible, of private enterprise by insuring the convertibility of local currency receipts from projects approved by the Administrator. Whatever remains in this fund of $1,000,000,000, after the Administrator has set aside such funds as he desires to earmark against guaranties, would be available for loans through the agency of the Export-Import Bank, to be financed as public-debt transaction.

Division between loans and grants

The remaining 4.3 billion dollars which may be appropriated may be used either for grants or loans a the Administrator deems necessary, acting in consultation with the National Advisory Council on International Monetary and Financial Problems. The determination, therefore, of what shall be a grant and what shall be a loan has been made partly by the setting aside of a maximum amount as an authorization beyond which no grants can be made, but with the assumption that some loans may be authorized within this amount. The determination of the conditions under which loans may be properly made rests, therefore, with the Administrator in consultation with the National Advisory Council, notwithstanding the provisions of the Export-Import Bank Act of 1945. It is provided, however, that these loans will be such as to have a reasonable assurance of repayment which is the same standard currently applicable to Export-Import Bank loans.

It is provided that the Administrator in making loans shall utilize first the funds made available by the $1,000,000,000 public-debt transaction, before utilizing for loan purposes any funds appropriated under this act.

In conformance with the statutory provisions governing the division of funds as between loans and grants, as above stated, the Administrator may make grants to the participating countries for approved types of assistance. He may require currencies of the participating countries in amounts commensurate to the aid received in this form to be placed in special joint accounts hereafter described, or he may secure, by the language of section 111 (c) (1), section 117 (a), and section 115 (b) (5) and in conformity with section 115 (h) (9) of the provisions of repayment, strategic materials for stock-piling purposes in the United States.

In essence, the aid which is extended for local currencies becomes a grant to the recipient nation, since the disposition of the currencies concerned is made a matter of joint agreement.

G. LOCAL CURRENCY DEPOSITS

The committee strongly believes that local currency funds, wisely administered, can become a major force toward (*a*) reconstruction, expansion, and modernization of industrial capacity; (*b*) stabilization of internal financial and monetary conditions, and (*c*) development and expansion of raw material productive capacity. The funds also shall be available to meet the local administrative expenses of this program. It appears probable that a large part of most of the funds accruing during the first year will be temporarily frozen in order to reduce inflationary pressures; in Greece, however, the local funds must be used for immediately current expenditures due to the disruption resulting from the civil war. This is an example of the varying conditions which must be considered by the Administrator in the various countries.

The committee has examined the possibility of vesting legal title to these funds and detailed control of their use, solely with the United States, but has rejected this concept on the grounds that it would place the United States in the position of primary responsibility for the financial stability of these countries. Such a position would be inconsistent with the objective of strengthening the cooperation and mutual self-help among the participating nations. The committee has, therefore, provided for the establishment of a special account by each country, subject to joint control of its disposition by the recipient country and the United States.

The agreements between the Administrator and the recipient countries on the use of these funds may be as broad or as detailed as necessary in order to provide effective supervision of expenditures. The approval of representatives of both the recipient country and of the Administrator might be required for withdrawals from the fund. Funds so deposited are restricted to uses within the recipient country (including its dependencies).

In order that the use of these funds not be confined solely to the governments of recipient nations and thereby further the trend of nationalization, they should also be available to private industries to facilitate productive enterprise.

This assistance to private firms may take any form mutually agreed upon, including loans or guaranties of loans where applicable. There is no reason why these funds should not be equally available to American as well as to domestic firms.

The bill provides that any unencumbered balances which may remain in any of these funds on July 30, 1952, shall be disposed of within the recipient countries in accordance with agreements between their governments and the Government of the United States and must be approved by the Congress of the United States.

The committee considered the possibility of creating from these funds a foundation fund to encourage creation of a permanent union in western Europe. It was pointed out that this purpose could be implemented by the Administrator if timely opportunity developed under the bill as drafted.

The committee therefore decided not to attempt to write such a requirement into the bill.

H. STOCK-PILING PROVISIONS

One of the points to be covered in the bilateral agreements to be undertaken as a condition for participation in the benefits of this recovery program is stated as "facilitating the transfer to the United States by sale, exchange, barter, or otherwise for stock-piling purposes" and under terms and conditions to be agreed upon, of materials that are required by the United States because of deficiencies or potential deficiencies in its own resources (sec. 115 (b) 5). The phrase "otherwise" would indicate the possibility of acquisition as repayment to the United States but this is strengthened by the insertion of paragraph 9 in the same subsection, which makes mandatory upon the participating countries the recognition of the principle of equity in respect to the drain upon the natural resources of the United States and of the recipient countries, through providing a schedule of availabilities for United States purchase of strategic materials at world market prices, in order to secure an equitable share of such materials for United States industry.

Further, the act protects, through an agreement to negotiate, the rights of access by United States enterprise for the development of the materials on terms of national treatment in the territories of the countries concerned, and still further provision for the negotiation of repayment through an agreed percentage of increased production of such materials where practicable (par. 10). Section 111 (c) also deals with stock-piling materials as one of the provisions governing the terms of repayment which the Administrator is authorized to accept for aid. Section 117 (a) provides for funds to be made available by the Administrator to secure by agreement and wherever practical an increase in the production in the participating countries of materials which are needed by the United States because of domestic deficiencies, actual or potential.

Insofar as is legislatively possible, therefore, the bill may be said to encourage stock piling through development, purchase, or repayment through strategic materials—those deficient in the United States.

I. PRIVATE ENTERPRISE AND INVESTMENT

The magnitude of recovery abroad necessitates the use of public credit. However, one of the principal aims of the European recovery program is the reestablishment of private investment in productive enterprise. Since the war, chaotic economic conditions throughout Europe and Asia have prevented this, however, it is anticipated that as recovery gathers impetus important enterprise will once more become the primary force behind the progressive development and expansion of trade abroad.

Until such time as overseas capital is restored sufficiently to assist in financing such trade the principal sources of private investment must be in America. There is evidence of a desire on the part of business to expand abroad. This is limited, however, by the inability to transfer foreign currency into dollars. To meet this difficulty, at least in part, and encourage new investment section 11 of the Senate bill authorized the Administrator to guarantee new loans and investments up to 5 percent of the funds appropriated or $265,000,000. The House bill in section 11 increases the permissive total to $500,-

000,000, but levies a charge of not to exceed 1 percent per annum. By almost doubling the amount available for guaranties, the committee hopes that private enterprise may be encouraged still further. On the other hand, the committee believes that by charging a smalll fee it will limit the use of the guaranty feature to those who most need it. The guaranties need not be used nor any definite figure set aside by the Administrator to cover them. They constitute only a contingent public liability.

The guaranty as in the case of the Senate bill relates to convertibility only and does not apply to normal business risks. Both bills require that any project must further the recovery program and be approved by the Administrator and the participating country.

In section 11 (b) (3) the committee includes a provision of importance in connection with the activities of the United States Information Service which did not appear in the Senate bill. This permits the Administrator to guarantee the convertibility into dollars of funds employed by private United States enterprise in Europe for the dissemination of information about the United States, by means of mass media up to the total of $15,000,000 during the first year of the recovery program. Any local currency received in exchange for dollar credits is the property of the United States Government. The committee hopes that this will serve to promote through private channels that have been prevented from operating heretofore, a true understanding of American institutions and policy among the nations. Nothing could be more useful in supplementing the activities of our information program overseas.

In deleting the so-called Taft amendment (section 11 (b) (4)) (i and ii) of the Senate bill, the committee felt that it did not carry out the purpose for which it was adopted, namely, to induce the fullest possible participation of the Western Hemisphere countries, other than the United States, in ERP. Furthermore, it was felt that the experiment might be expensive.

The principal points against the amendment are as follows:

(*a*) There is a limit to the "soft" currencies that can be accepted by the Western Hemisphere countries in financing trade with the participant countries. The figure cannot now be set forth accurately but the administration estimates this to be $700,000,000. Whatever this exact figure proves to be, no guaranty can very well increase it over and above the saturation point.

(*b*) The proposed guaranty of 70 percent would influence the sellers in the Western Hemisphere to withhold the normal credit extensions in favor of the 70 percent guaranteed credits.

(*c*) This procedure might be costly to the United States since it is not a guaranty as to exchange but an actual guaranty as to risk without ascertainable benefit to the program. Should there be default or a failure to repay a sufficient sum to cover the 70-percent guaranty the United States would be required to make up the loss.

In China the present bill has authorized the expenditure by the Administrator of from 5 to 10 percent of the $420,000,000 earmarked for economic aid to further the advancement of rural reconstruction under a mixed commission. In so doing, the committee feels a project of basic importance for long-term recovery will be undertaken which in time should encourage private investment and trade development with a corresponding betterment in the present low standard of living.

The committee is of the opinion that business enterprise and technical ability is of the utmost importance in furthering the ERP. Accordingly, it agrees with the provision set forth in the Senate bill authorizing the Administrator to employ consultants and organizations of consultants to help him.

J. DURATION AND LIQUIDATION

What is the duration of this undertaking? A program lasting through June 30, 1952, is envisaged. This does not represent a commitment. This Congress does not attempt to bind future Congresses. The program represents rather an objective whose realization will be contingent upon the practical results achieved by the participating nations. The right of the Congress is stipulated to terminate the program on its independent judgment as stated in a concurrent resolution.

While the committee heard many arguments that the intention be hindthe undertaking should be stated as only for a 1- or 2-year program, the committee believes that a 4-year goal is necessary to bring about the necessary type and scope of planning and performance.

The bill as originally proposed would allow 3 years beyond June 30, 1952, during which goods procured under the assistance agreements might continue to be shipped. The Senate cut this period to 12 months—a sound step in the direction of avoiding unnecessary protraction. The same limit is placed upon the expiration of the power to allocate funds and upon the life of the central agency, in contrast to 5 years provided in the bill as originally offered by the President. No terminal date for liquidation is specified. It is obvious that liquidation will require a considerable period. The convertibility guaranty provision, for example, will place an obligation upon the United States for some 14 years. The bill as proposed by the President, passed by the Senate, and now recommended to the House, leaves the President to determine the liquidating agency or agencies. This appeared to the committee as preferable to an attempt by the Congress to specify what agency should handle liquidation so far in advance of information as to what the precise requirements may be.

K. RELATION TO INTERNATIONAL ORGANIZATIONS

The bill as originally proposed is ambiguous in regard to relations between the Economic Cooperation Administration and the activities of the many international organizations under the general aegis of the United Nations in fields related to its objectives. It states the authority to establish such relationships as residing both in the Administrator and in the President, with the latter alone authorized to convey funds in connection therewith. The bill as passed by the Senate and now reported confines the authority to the President, as it properly should be. The committee has added a stipulation that in the employment of international organizations in furtherance of the purposes of this act there shall be no conveyance of authority to determine the types and amounts of assistance. This appears advisable in order to preclude the possibility of an UNRRA-type of operation.

In the committee's judgment, the safeguard is adequate. It would be impossible to name in advance the organizations whose personnel and resources might at some stage be brought into the operations contemplated, and it appears highly advisable to leave the door open for the Administrator to draw upon the talents and facilities available among international organizations.

Cooperative endeavors with such organizations as the Coal Committee of the Economic Commission for Europe, the Food and Agriculture Organization, the International Labor Office, the International Bank for Reconstruction and Development, and, if and when it comes into existence, the International Trade Organization, may be anticipated.

Because of the factor of unpredictability, it appeared to the committee unwise to attempt to restrict the amounts of money which might be involved in such endeavors.

The bill provides properly for full reporting of activities to, and registration of agreements with, the United Nations.

A second aspect of relation to international organizations occurs with respect to organizations set up specifically for cooperation in Europe. Participation in the CEEC is made a contingency for assistance. Agreements with groups of participating countries as well as singly are permitted. A Special Representative will represent the United States in dealings with any European organization set up to carry out the program. He will represent the United States on the Economic Commission for Europe (an instrumentality of the United Nations). The participating nations collectively are encouraged to assist the Administrator in seeing that the resources of the program are devoted to its objectives.

L. ASSURING PROPER USE OF AID

Several different provisions of the bill are designed to make sure that the aid given is put to good use by the recipient countries. First, there are detailed requirements for the bilateral agreements to be made by the United States and each participating country. These are embodied in section 115, and require each country to promote industrial and agricultural production, to take measures to stabilize currency to cooperate with other participants toward increasing trade, and to make efficient use of its own resources. There is also the provision for setting up a special deposit in local currency, in amounts commensurate with any aid furnished on a grant basis. This is more fully discussed elsewhere in this report, but must be mentioned as a means of greatly increasing the effect that may be gained by grants, since they will be matched by local funds that will be used in some measure and in various ways to promote recovery.

In addition to the terms that must be embodied in bilateral agreements there are statements of policy embodied in section 102, and connected with the provision for termination of aid in section 118. This puts it within the power of the Administrator to relate the quantity of aid given, and the continuance of aid, to the performance by the recipient of its obligations. He is also directed to refuse delivery to participating countries of commodities or products which go into the production of commodities or products for delivery to any country which has announced its intention to attempt to prevent the success of ERP which commodities or products would be refused export licenses to those countries by the United States.

Administrative provisions for follow-up on the use of aid are provided in the terms of section 108 setting up a United States Special Representative in Europe and special missions abroad under the Economic Cooperation Administration.

Finally there are the provisions of section 123 concerning reports to the Congress, both current and at stated times. Given the character of the program, as one extending presumably over a number of years, and requiring not only renewed appropriations but also renewed authorization annually, there will be an annual check of which all concerned with, remain conscious, and especially the recipients themselves. Over the long course this may prove to be the most effective of all checks embodied in the program to assure proper and efficient utilization of aid.

M. CONGRESSIONAL CHECKING

The provision in section 23 of the bill as passed by the Senate for the so-called watch-dog committee has now been stricken. The Legislative Reorganization Act of 1946 was specific in avoiding the dangers of creating overlapping jurisdictions and increasing the lack of responsibility for legislative authorization and scrutiny by eliminating special committees of this character. The Committee on Foreign Affairs has been duly vested with and throughout its history has operated in the area of economic foreign policy. The primary responsibility under the Constitution for the initiation of economic measures involving revenues and expenditures rests with the House of Representatives. The function of the Senate Foreign Relations Committee is more primarily that of considering treaties and matters of high policy. It may naturally not be concerned at the creation of a committee which through its scrutiny of economic aspects of foreign policy has devolved by tradition and by constitutional usage, in considerable measure, on the House, and through the House Committee on Foreign Affairs. This committee is therefore the proper agency for performing for the House of Representatives the functions vested by the Senate bill in the Joint Congressional Committee on Foreign Economic Cooperation. The authorizing committees of Congress have the duty to review the performance under their authorizations.

Long experience with joint committees of the character of the one proposed by the Senate has proved and continues to prove that they are more attractive in theory than in practice. They do not command the responsibility which goes with the legislative duties and undivided responsibility of a standing committee.

N. THE CENTRAL AGENCY

It is essential to the success of the program that it be allowed to get under way without delay. No less essential is the necessity of getting precisely the right man to head it. This involves a possible conflict. The necessary care in selecting the Administrator may result in a slight postponement of the establishment of the central agency of administration. Accordingly, the President is authorized to select any agency of the Government to take the initial steps, pending the qualification of the Administrator or his Deputy. The interval for such administration is limited to 30 days and may be extended if the President has nominated an Administrator or a Deputy Administrator and if neither has qualified. This limitation, aimed to produce rapid action in establishing the permanent agency, was added by the Senate. The committee decided to concur in this general provision after weighing several possible alternatives. The Herter bill has no provision for interim administration.

The permanent agency proposed in the administration bill, accepted in the Senate bill, and now recommended by this committee, is an administratively independent establishment of the executive branch, noncorporate in form. It will be known as the Economic Cooperation Administration.

The principal alternative is that proposed in the Herter bill—a corporate agency to be known as the Emergency Reconstruction Authority.

No question was given more searching examination by this committee, in the deliberations upon the bill, than the question of corporate as against noncorporate administration. The committee heard arguments of singular persuasiveness on both sides of this issue.

For the corporation, there were the arguments that it would tend to insure businesslike administration, that the Administrator's judgment would be tempered by a board of directors, that freedom from the usual restrictions upon accounting and contracting by Federal agencies would be eliminated.

For the noncorporate form there were the arguments that it would insure the direct responsibility of its chief to the President, that it could work in closer liaison with the regular departments of the Federal Government which are of similar form, and that freedom from the hampering restrictions upon practices of Federal agencies could be eliminated by specific exemptions in the act.

The committee was most strongly impressed by the argument of direct responsibility to the Chief Executive in an operation involving, as this program will, considerations of the utmost delicacy in the execution of major policies of this country, both domestic and foreign. Mindful, however, of the advantages claimed for the corporate form, the committee decided to permit the chartering of a corporation for business operations in this program when such might be found by the Administrator to be conducive to the success of the program. It so recommends to the House.

O. THE ADMINISTRATOR

The Administrator's qualities and abilities will largely determine the success of the undertaking here envisaged. He must combine tact, force, and experience. He will be called upon to perform a public duty the critical character of which has seldom if ever been surpassed in the history of the Nation.

The Administrator and his Deputy will be nominated by the President, subject to senatorial confirmation. The Administrator will have Cabinet rank.

The committee heard many interesting suggestions brought forth in testimony, including administration by a Cabinet secretariat, a board of four with a requirement for the concurrence of three in any action taken, a committee of Presidential appointees who must be businessmen, and a split administration with one head for programing and another for supply and distribution. The committee concluded that a single chief was preferable to such alternatives.

To whom will the Administrator be responsible? The bill as proposed by the President states his subordination to the Secretary of State on all matters affecting the conduct of foreign policy—a broad field for intervention since virtually everything in the program will affect foreign policy. The bill passed by the Senate states his direct responsibility to the President. The committee decided to concur in this provision. It carefully weighed but put aside the proposal in the Herter bill making the chief of the program responsible in part to a corporate board of directors and in part to the President.

P. ADVISORY PROVISIONS

Who will advise the Administrator? This is a question of considerable importance. It will be necessary to give him access to the wisest and most prudent counsel.

The bill as originated by the President proposes that regular advice on international financial matters be supplied through contact between the Administrator and the National Advisory Council on International Monetary and Financial Problems established under the Bretton Woods Agreements Act The bill as passed by the Senate includes not only this provision but also a provision making the Administrator a member of the National Advisory Council. The Senate bill also provides for an advisory board of up to 12 members, to be nominated by the President and confirmed by the Senate, to sit with the Administrator presiding as chairman. This advisory board will be required to meet at least once a month or on call of the Administrator, and any three members of the board will be empowered to precipitate a meeting.

To insure against a monopoly of the board membership by any party, no more than a majority of two from any one party is permitted.

As recommended to the House by this committee, it is specified that the board be drawn from leaders in business, labor, agriculture, and the professions.

Besides the Public Advisory Board, the Administrator is authorized to summon special advisory boards to sit with him as special problems arise requiring him to counsel with leaders of particular groups of the public.

The committee weighed carefully the merits of the Foreign Aid Council proposed as an advisory body in the Herter bill. This was strongly supported in the hearings. This Council would draw together the Secretary of State, the Secretary of the Treasury, the Secretary of National Defense, the Secretary of Agriculture, the Secretary of Commerce, the Chairman of the Board of Directors of the Export-Import Bank of Washington, and seven members of the Board of Directors who sit with the chief of the program in corporate affairs.

The committee came finally to the view that the best mechanism for advice was one which would separate the public sources and the official sources of advice rather than merging them.

Q. POWERS AND RESPONSIBILITY

The Administrator's general powers are specified in the Senate version of the bill and the version now reported, in contradistinction to the bill in its original form. They include the power to review and appraise requirements of participating countries, formulate the programs of assistance, approve specific projects submitted by the participants, provide for efficient execution of the program. He is also to determine upon withdrawal of aid from any participating country failing to meet its obligations or misapplying assistance, or in event of a change in conditions affecting the national interest of the United States. His specific powers are stated through the bill. In all his functions he will be primarily responsible to the President.

The President will play a special role in nominating the Administrator and his Deputy, the special representative in Europe, and the Public Advisory Board. He will determine both the agency to perform interim administration pending the establishment of the permanent agency and the agency to succeed the Economic Cooperation Administration upon its expiration. He will control the funds. He will exercise the determining authority in prescribing release from the usual restrictions upon contracting and accounting. He will have the final word in the establishment of special arrangements with international organizations, including agencies of the United Nations as well as the United Nations itself, in the execution of the program. Most important of all, he will be the arbiter in policy differences between the Administrator and the Secretary of State on foreign-policy matters and between the Administrator and the official who administers the export controls on questions in the field where their responsibilities obviously merge.

The Secretary of State's role in the program also deserves special attention. As already mentioned, the bill as passed by the Senate and now reported considerably modifies the subordination of the Administrator to the Secretary of State on foreign-policy matters. It provides for continual interchange between them on all matters of mutual concern. It provides a special access to the President, who will settle the issue, on actions contemplated by the Administrator and considered by the Secretary of State as incompatible with other aspects of United States foreign policy.

The question naturally rises whether there is an equivalent opportunity for the Administrator to take issues to the President. In the commitee's view the power of the President to issue directives to all agencies regarding cooperation in the program, the specified Cabinet status of the Administrator, the Administrator's direct access to the President, and the President's inherent authority as Chief Executive over his immediate subordinates are sufficient protection to the Administrator. The committee believes that the bill gives assurance of coordination in our foreign policy, insofar as this can be assured on the organizational plane.

Finally, in connection with the President's role, special attention should be called to the obligation placed upon the President to seek the assistance of other Western Hemisphere countries in the program.

73259—48——4

R. RELATION TO OTHER AGENCIES

In considering the status and powers of the Administrator, it should be stressed that he will be on a plane equal with that of the heads of the Departments of the executive establishment. A provision is included specifying that the President shall have power to direct other agencies to afford him required assistance in personnel and facilities. The administration bill had left such assistance contingent upon the consent of the head of the other agency concerned. With the change made in the Senate and concurred in by this committee, the Administrator will be assured of the support of other agencies.

The Administrator will have a direct line of connection with the overseas organization established by the Government to carry on the program. He will be authorized to appoint overseas personnel in his own right, as well as to facilitate their appointment through channels of the Foreign Service reserve. He will have a direct authority over the chief of the mission for special European recovery program affairs in each participating country. He will have a direct line of communication with the Special Representative of the program in Europe.

The committee gave close study to the interesting proposal in the Herter bill to leave the methods, organization, and relationships overseas to be determined by the President and, under him, by the managing authority of the program. The committee came to the conclusion that it would be preferable to have the Congress determine the outlines of organization rather than to leave such essential parts of the structure to be worked out within the executive establishment.

Finally, it should be pointed out that the Administrator will be brought into close touch with the participating countries. Though the basic agreements will be made by the Secretary of State consulting the Administrator, the implementing and interpretative agreements under the basic agreements will be in the Administrator's hands. It is he who will authorize and arrange specific assistance and advance credits. He will work out projects for increasing production of critical materials, enter into arrangements for the convertibility guaranties, determine in joint agreements the use of local currency funds, take steps to encourage resettlement of displaced persons, stimulate steps toward joint organization among the participating nations, and finally determine (subject, of course, to Presidential concurrence in the event of disagreement with the Secretary of State) when aid must be terminated because of failure to comply with the terms of the program or for other reasons.

S. THE LOCATION OF EXPORT CONTROLS

The location of export-control authority was presented to the committee as of crucial importance in relation to the questions of central authority in this program. The Herter bill contemplates the locating of export-control authority in the Administrator, along with the attendant power to make domestic allocations of critically short items. The committee heard many presentations of the argument that such an arrangement would be indispensable in affording the Administrator power commensurate with his responsibilities. The committee concluded, however, that the more cogent arguments were on the side of leaving present arrangments undisturbed. There is in sight no need for domestic requirements to be made claimant against the European recovery program or for exports to all areas of the world to be made subject to the veto of an official whose statutory responsibility is related to our trade with one area.

The theoretic evidence on this point was mixed. In any event, if experience should clarify—as theoretical arguments do not—a need for integrating export controls in the Administrator of the European recovery program, the authority for so establishing them is already at hand in Public Law 395, Eightieth Congress. The committee would be reluctant to force such a change—thereby disrupting existing relations and disestablishing existing agencies—without more compelling evidence of the necessity. In the committee's view a provision, developed in the Senate stage of the bill, for continual interchange between the Administrator and the official, if other than the Administrator, exercising authority over export controls, with specific recourse to the President in event of policy disagreements, gives adequate assurance that export controls will be harmonized with the needs of the European recovery program.

T. THE OVERSEAS ORGANIZATION

Specific attention should be given to the organization overseas.

Its central figure will be the Special Representative of the United States before any organization set up by the participating nations. He will coordinate undertakings abroad involving any groupings of participating nations. It is obvious that such an ambassador will be needed since the scope of the general undertaking and of specific subsidiary undertakings will be wider than the mandate of any chief of a diplomatic mission. The Special Representative will serve this country's interests also before the Economic Commission for Europe. He will be given rank commensurate with the importance of his position—the rank of a chief of mission.

The Special Representative is provided for in the bill in its original form. The Senate has added provisions specifying that he must keep the Secretary of State, all chiefs of United States diplomatic missions and special European recovery missions concerned, and the Administrator informed of his activities. The committee has added that this same line of communication should extend to the committees of the House and of the Senate involved in the foreign policy and financial considerations of the program.

The special missions will carry on the program in each country. This is in accordance with the President's original proposal, but the details have evolved considerably in the legislative history of this bill. The Senate has taken the chief of mission out from under the wing of the chief of the diplomatic mission in each country. As now established, the chief of the recovery mission will rank in precedence immediately below the chief of the diplomatic mission, with whom mutual, constant communication is provided. In event of a difference that cannot be reconciled on their level, the chief of the diplomatic mission will have recourse to Washington for final settlement. The committee considered whether a like recourse should be specified for the chief of the recovery mission. Its decision was that in any case such recourse would be inherent, and that to specify it would tend toward the establishment of two-headed missions. The committee believes the present formula strikes a proper balance between unity in policy and independence in action.

The committee has altered the language of the bill, however, to correct the inference that a special mission must be established in each participating country. In some instances it may be well to have one mission for two or more nations. Flexibility in the requirement seems prefereable to rigidity.

As to the staff personnel of the special missions, the President's proposal provided for their appointment in the Foreign Service Reserve. For some members this might be desirable from the standpoint of prestige and precedence. For others it might be undesirable as involving them in formal considerations having no relationship to their practical work. The Senate wisely altered the proposal to permit direct appointment by the Administrator as well as Foreign Service Reserve status by appointment through the Secretary of State. This option will permit conformity with the choice of the individual and the nature of his job in determining his status.

Employment of aliens as subordinate personnel at clerical levels in the special missions is authorized.

U. RECRUITMENT PROVISIONS

The program will be no better in the last analysis than the abilities of the people who operate it. No portions of the bill are of more critical importance than those relating to personnel.

One most important provision is that providing for the loyalty investigation of those persons who are employed for overseas duty in the program. It is indisputable that these must be of unfaltering fealty to the security of the United States and to the objectives of the program. The bill as it comes from the Senate includes provisions similar to those in the bill as proposed by the President. It would require investigation by the Federal Bureau of Investigation before any employee could be put permanently on the rolls. It would permit temporary employment pending such investigation and following a security check by the Department of State or the Administrator. The Herter bill includes no specific related provision.

In the committee's view the stipulations as adopted by the Senate are not rigid enough. It appears mandatory that investigation by the Federal Bureau of Investigation be made a condition precedent to employment. The program must be protected against the remotest possibility of disloyalty in its staff even for a temporary period. The crux is that it is infinitely easier not to hire a disloyal person than it is to get rid of him once he is hired.

Talent is second in importance only to loyalty. The Herter bill would make it possible to enlist the best talent by freeing the administration in toto from the usual restrictions surrounding Federal employment. The corporate administration would be permitted to hire and pay on its own terms. In the committee's view this freedom of restriction is not necessary to insure the objective. The committee adopted, therefore, the terms of the bill as passed by the Senate.

These set a salary level of $20,000 per annum for the Administrator—$5,000 above the salary level of a Cabinet Secretary—and $17,500 for his Deputy. It will be permissible to pay up to $15,000 for 10 additional key members of the staff. Fifty others can be paid without regard to salary classification—that is to say, up to $10,000 a year if necessary. Advisers and consultants will be allowed a $50 per diem. The Special Representative overseas will be compensated at the level of $25,000 per year plus generous allowances. Other personnel serving overseas will be given the pay and perquisites of Foreign Service reserve personnel—providing a top level of $13,500 per year plus allowances.

Exemption from Federal laws barring the employment of persons identified with companies having a claim against the United States or receiving benefits from services rendered the United States is included in the bill as reported. This will permit the unhampered employment of individuals on leave from industry.

VI. Analysis of Title II: The International Children's Emergency Fund

Under title II of the act, an authorization has been given for the appropriation of $60,000,000 for additional United States contributions to the International Children's Emergency Fund. These contributions will be additional to the sums contributed under authority of the joint resolution of May 31, 1947 (Public Law 84, 80th Cong.), which authorized the immediate contribution of $15,000,000, which has been made, and additional contributions up to $40,000,000, at the rate of $57 for every $43 contributed by other governments.

The International Children's Emergency Fund was created by the General Assembly of the United Nations. It operates as a subsidiary organ of the United Nations under the direction of an executive board and reports to the Economic and Social Council of the United Nations. The United States representative on this board is Miss Katharine Lenroot. The Director of the operations of the fund is Mr. Morris Pate, an American. Contributions to the fund have been made or pledged by 20 countries in the amount of approximately $29,000,000. Contributions from nongovernment sources, including UNRRA, amount to approximately $12,000,000. United States contributions to date have consisted only of the first $15,000,000 authorized in the joint resolution of May 31, 1947, but, as a result of contributions by other countries, amounting to approximately $13,000,000, another $2,000,000 is now due from the United States. Continued deterioration in economic conditions abroad have made it impossible for many of the other countries to make further contributions.

It is expected that there will be approximately 14 beneficiary countries, namely, Albania, Austria, Bulgaria, Czechoslovakia, Finland, France, Greece, Hungary, Italy, Poland, Rumania, Yugoslavia, China, and certain other areas of the Far East. The largest allotment has been made to China, while the next largest allotments have been for Italy and Poland.

Under title II of the act, the total United States contributions, including the total amount authorized in title II and the amount authorized in the joint resolution of May 31, 1947, may not exceed 50 percent of the total resources contributed after May 31, 1947, by all governments, but in no event more than $100,000,000. The additional authorization would make it possible for the fund to care for a total of 5,500,000 during a 12-month period.

VII. Analysis of Title III: Military-Type Aid to Greece, Turkey, and China

A. PURPOSE OF THIS TITLE

The sole and expressed purpose of the Government of the United States in this title III is to render such prompt, effective, and efficient military assistance to the countries of Greece and Turkey as will permit these two member nations of the United Nations to effectively implement their own efforts to survive as free and independent entities in the face of armed aggression across international frontiers, which aggression is in the instance of Greece, and as determined by the United Nations, in violation of the provisions of the Charter of the United Nations.

The two countries have been, and continue to be, subject to external pressures by Communist-dominated nations which pressures pose a constant threat to internal security and economic stability. Without immediate and effective assistance such as is provided in the terms of this title, it is believed that neither Greece nor Turkey can long survive the determined and unrelenting attacks upon their independence.

This title recognizes not only the immediate threat to the countries concerned but also the responsibility of the United States for the maintenance of international peace, the desire for which caused us to take a leading role in, and led us to subscribe to, the deliberations and findings which resulted in the formation of the United Nations.

On February 26 the Secretary of State requested the Congress to extend Public Law 75 (80th Cong.) and to authorize the appropriation of an additional $275,000,000 for assistance to Greece and Turkey. The funds were requested in order to continue military support to the Greek and Turkish Governments in addition to the economic assistance which will be given to those countries under the European recovery program. The need for this additional assistance is occasioned by continued and increasing Communist pressure upon Greece and Turkey which threaten their independence and territorial integrity.

B. THE GREEK PROGRAM TO DATE

Under Public Law 75 there was authorized in May of 1947, a total of $400,000,000 for military and economic assistance to Greece and Turkey. Of this amount, $300,000,000 was allocated to Greece. Original plans were that approximately one-half of this total would be utilized for the economic rehabilitation of the country, and the remainder for the equipment and supply of the Greek armed forces in their fight against Communist guerrillas threatening to overthrow the elected constitutional government. In consequence of intensified guerrilla activities, aided by totalitarian countries to the north of Greece, a deteriorating military situation during the past several months has necessitated the diversion of some $23,000,000 from economic to military purposes, and reconstruction has suffered accordingly. A greater amount could not have been diverted without seriously jeopardizing the economy.

There have, moreover, been other developments adversely affecting the Greek program. Drought last year reduced the anticipated cereals harvest by nearly one-third. Rising prices resulted in fewer goods being bought with funds available. Largely as a result of continued insecurity, Greek production and exports have not reached the levels expected. The influx of some 450,000 refugees in rural areas has created a serious health and welfare problem, and has imposed a heavy additional burden upon the Greek budget.

Notwithstanding these difficulties, however, there have been substantial successes under the program thus far. Most important is the fact that the Communists have been unable to accomplish their objective of the collapse of the Greek economic and political structure. Beyond this, the Greek Government administration has been improved, many basic economic reforms have been instituted, and reconstruction of transportation and communication facilities has proceeded in those areas where security conditions permitted. With American aid the Greek people have been supplied on an austerity basis, and starvation or semistarvation have been limited to remote areas under guerrilla domination.

The size and strength of the Greek armed forces have been substantially augmented, and they are now better equipped to cope with the guerrilla problem. One hundred national-defense battalions are being formed and armed to perform static defense of villages, in order to relieve the army for offensive warfare. Since December, American military personnel have been engaged in providing strategic and tactical advice to army units down to the divisional level. With these improvements, and with the additional aid requested, the Greek forces are prepared to meet the situation as it exists or can reasonably be foreseen, unless the volume and nature of assistance to the guerrillas is substantially increased.

It is estimated that as of March 31, $287,181,000 of the Greek program will have been committed, leaving a balance of only $7,819,000 for commitments after that date. Most of this balance is related to economic programs, and in order to prevent a break in the flow of military supplies, additional funds are needed in the immediate future.

C. THE TURKISH PROGRAM TO DATE

The $100,000,000 earmarked for Turkey under the appropriation made pursuant to Public Law 75 was wholly for military purposes. The first important shipments under the Turkish program were not made until the latter part of December and the early part of January, due to a rather protracted planning period which was needed to assure the most efficient use of the funds available. Shipments are going forward rapidly, however, and will for the most part be accomplished before the end of July 1948. Virtually all will have been received in Turkey by the end of September.

The supply of this material has been concrete evidence of the United States determination to assist Turkey in her efforts to resist Russian pressures and has been highly successful in bolstering the morale of the Turks. The Turkish Army has been made better able to meet any eventuality. In Turkey, therefore, the major success of the program has been that the determination and ability to resist Communist pressures is substantially greater than would have been possible without American aid.

D. ADMINISTRATION OF PUBLIC LAW 75

Responsibility for administering the Greek and Turkish aid programs has been vested by the President in the Secretary of State. In his administration of the program, the Secretary of State receives the cooperation of all departments of the Government whose facilities can contribute to the success of the program. Those primarily involved are the Department of National Defense, which is largely responsible for military aspects of the program; the Treasury Department which, through the Federal Bureau of Supply, procures industrial items for the Greek civilian economy; the Department of Agriculture, which procures agricultural requirements; the Public Roads Administration, which directs road development work in Turkey in relation to the military program; and the Army Corps of Engineers, which has been given responsibility for administering reconstruction work in Greece.

Administration of the program in Greece is under the direction of former Nebraska Governor, Dwight P. Griswold, Chief of the American Mission for Aid to Greece. The mission, which consists of about 152 civilians and 238 military personnel, is comprised of a military branch under direction of Lieutenant General Van Fleet, and an economic branch. The economic branch is responsible for functions embracing almost all phases of the Greek Government and economy. Its advisory responsibilities include such matters as the control of the Greek budget and foreign exchange resources, industry and mining, reconstruction, labor, agricultural rehabilitation, public health, relief, and others.

The American Mission for Aid to Turkey is under the direction of the Ambassador, Mr. Edwin C. Wilson. The mission is entirely military in nature and consists of about 152 American personnel.

The Department of State's program coordinating functions have been centralized in the Office of the Under Secretary, and are under the direction of Mr. George C. McGhee, Coordinator for Aid to Greece and Turkey. The established units of the Department, as well as of other Government agencies, are used to the fullest possible extent in carrying out work under the program. The Coordinator's staff is a relatively small group including specialists needed to supplement regular departmental personnel.

E. POLITICAL AND STRATEGIC CONSIDERATIONS

While the American aid program has thus far maintained Greek and Turkish independence, Communist pressures upon those countries, particularly Greece, are even greater than when the program was inaugurated. The Communists are convinced that time will play in their hands and that they will be able to take over by default when American aid is terminated; their hopes are based on the belief that the United States will be unwilling to continue support of the military forces of Greece and Turkey.

The Communists recognize that the continued existence of Greece and Turkey as free nations is an obstacle to their aggressive designs, particularly to their plan to dominate the eastern Mediterranean. Their bitter attacks on the program are evidence that they realize that with American assistance, Greece and Turkey will not be easy targets for their subversive activities.

The satellites no longer make any pretense of their objective of destroying democracy in Greece and Turkey. The United Nations Investigation Commission which was sent to Greece by the Security Council found clear evidence that the countries to the north of Greece were furnishing aid to the guerrillas. Albania, Bulgaria, and Yugoslavia refused this United Nations mission entry in their territory, and in later stages of the investigation refused in any way to cooperate. These countries have blatantly flouted recommendations of the General Assembly by refusing to recognize or cooperate with the Special United Nations Committee sent to the area to promote conciliation. They have openly endorsed the activities of the guerrillas and have by various means aided them in their cruel and criminal warfare. The United Nations mission recently reported, for example, that there is no doubt that supplies and equipment used by the guerrillas in the battle of Konitsa at Christmas time were supplied from across the frontier. There are reports that about 30,000 members of an international brigade, now mobilized in those countries, threaten entry into Greece to join the guerrillas.

Russia has not withdrawn its demands for military bases in the Dardanelles. It has publicly reiterated in the forum of the United Nations its claims to the Turkish Provinces of Kars and Ardahan. Continued pressure against Turkey makes it necessary for that country to maintain large forces under arms.

Failure to continue our support of Greece and Turkey would have serious consequences not only in those countries but throughout Europe and the Middle East. As stated in preliminary report No. 12 of the Subcommittee on Italy, Greece, and Trieste of the House Select Committee on Foreign Aid, withdrawal of American support from Greece would result in the overthrow of the Government by Communist forces. Such a catastrophe would be used by Communists throughout Europe to point out to those who are now valiantly resisting Communist infiltration the uncertainty of relying on United States help. The effects of such withdrawal would greatly weaken the determination of constitutional forces resisting communism elsewhere. The effect upon Turkey would be serious. Beyond this, there are highly important strategic reasons why Greece and Turkey must not fall. An independent Turkey is a block in the path of any power seeking the rich oil and other resources of the Near East. This was recently pointed out in a report by Representatives Bolton and Merrow of the Committee on Foreign Affairs. Maintenance of the freedom of the Turkish Straits is of great importance, as is control of the Greek islands, which gives control of the Aegean and the approaches to the Dardanelles and the Bosphorus. The strategic importance of both countries in relation to the entire Mediterranean area is obvious, but the politcal significance of preventing their subversion is even greater.

F. USE OF $275,000,000 ADDITIONAL APPROPRIATION

Both Greece and Turkey are included in the European recovery program and will receive economic assistance from the United States under that program. The additional funds requested under Public Law 75 are intended for military purposes. In requesting the additional appropriation the Secretary of State urged that the President be vested with authority to allocate the funds so that they may be made available as needed and in light of the relative emergency of requirements of the two countries. For this reason the authorization for the appropriation has been made available in total and not earmarked by country or otherwise. The sum requested is, however, based on detailed estimates of the requirements of the two countries, which have for security reasons been made available in classified status to the committee.

In order to meet urgent Greek military needs during the remainder of the present fiscal year over and above those for which funds are not available, as well as to initiate procurement arrangements in connection with the requirements of both countries during the next fiscal year, funds will be needed in the immediate future. For that reason there has been incorporated in the enabling legislation authority for the advance by the Reconstruction Finance Corporation of $50,000,000, to be reimbursed after the related appropriation bill has been enacted.

It is planned that administration of the funds requested will continue substantially as for funds previously provided under Public Law 75 for military purposes.

G. THE PURPOSE OF THE NEW LEGISLATION ON GREECE AND TURKEY

The new legislation contained in title III makes certain changes which relate to Greece and Turkey. Changes relating to China will be discussed separately at a later point.

Three of the changes are merely technical. Section 302 provides that civilian personnel may be detailed to the United States mission in the country concerned, or to the government of the country. This clarifies the provision made in Public Law 75 of the Eightieth Congress which simply authorized the detail of personnel "to assist those countries." The same section further fills in language concerning the status of such personnel which was previously covered by reference to the act of May 25, 1938 (52 Stat. 442), a statute which had been repealed since the passage of Public Law 75. The third technical change is in section 303, which makes the same provision for detail of military personnel to the United States missions that was made for civilian personnel by the preceding section.

A further change substitutes the proviso concerning loyalty clearance of personnel from section 10 of title I, instead of the provisio on the same matter as written in Public Law 75. The new provision permits assignment of personnel already employed by the Government pending investigation, and makes an exception of personnel appointed by the President with the advice and consent of the Senate.

A further allotment of funds for the Greek-Turkish aid program is made in section 304. The amount authorized to be appropriated is increased from $400,000,000 to $675,000,000, to cover the requested addition of $275,000,000. The clause allowing the Reconstruction Finance Corporation to advance a fraction of these funds, pending appropriation, is renewed in the amount of an additional $50,000,000 with a change to allow repayment to be without interest.

H. PROVISION FOR CHINA IN TITLE III

Aid for European countries has been of two types, distinguished as such in the requests made to Congress by the executive branch. The first type has concerned such situations as those in Greece and Turkey, under direct threat by outside forces. Aid in such situations is characterized by the purposes of the so-called Truman doctrine; military advice and supplies have been recognized as being as important as economic aid designed for relief or recovery in such countries. The other type of aid is that implied in title I of this bill, designed to serve the purpose of economic recovery. In the judgment of the committee, China, like Greece and Turkey, is a case to which each of these two types of aid are properly applicable.

The committee expressed this judgment by separating the proposed aid for China into two parcels, matching in nature the two types of aid to certain European countries provided in title I on the one hand and in title III on the other.

In order to grant to China substantial aid of the same character as the aid to Greece and Turkey, two types of provision had to be made in the bill. First, amending language had to provide for China under the terms of Public Law 75 of the Eightieth Congress. Second, an additional authorization had to be made to cover such aid under this law, as amended.

The committee was moved to this decision by the known facts of the situation in China, backed up by the evidence presented by several leading witnesses. China, like Greece, is torn by civil war supported by resources outside the country. In China, as in Greece, domestic political reform and economic recovery had become nearly impossible unless a minimum solution of military security could first be found. Much of China, like Greece and Turkey, has the character of a frontier region, covering a more important area whose independence is an interest of the United States. Not all witnesses were in agreement that military aid should be given to China, but nearly all were agreed that without military-type aid, economic aid would be a most dubious venture.

The importance of the independence and territorial integrity of China to the interests of the United States is regarded by the committee as a sound principle of policy, as much so today as when it was first recognized as one of the most fundamental principles of the foreign policy of the United States, half a century ago. To give China no aid, in the committee's opinion, would be tantamount to forsaking this policy or of accepting its defeat.

For these reasons the provision was made for aid to China, at a cost not to exceed $150,000,000, of the same character as aid to Greece and Turkey under title III. This amount does not appear large. There are several reasons why the total military assistance rendered to China, with this increment, may be greater than would appear possible at first glance. First, there is a considerable amount of such aid now going forward under past surplus-property transfers long dormant, but recently reactivated. Second, much of the money may be spent to buy at low prices and transport to China surplus war stocks now in Pacific areas which are not sufficiently valuable to justify returning to the United States but require American men and money to guard while they steadily deteriorate. Third, the character of Chinese warfare is such that a little material aid can go a long way.

The two types of aid are not separated by any watertight partition. But they are sufficiently distinct in character so that they are separated, for aid to Europe, into the recovery type of aid covered by title I, which includes Greece and Turkey, and by the primarily military type of aid covered by title III, specifically for Greece and Turkey. The distinction is essentially the same as the distinction between the Truman doctrine and the Marshall plan, or between a fence and a cornfield. It is equally as valid for China as for Europe.

VIII. Analysis of Title IV: Primarily Economic Aid to China

A. THE NEEDS OF CHINA

China had continuous foreign war from the time when its war with Japan began, in 1937 at the Marco Polo Bridge in Peiping, until the end of the Pacific war in 1945. It has had civil war ranging from desultory to intensive in scale and character for 40 years.

The efforts made during the war against Japan sapped the strength of the entire economic, fiscal, and administrative system of the country. Large sections of the country, including the richest, were occupied for as long as 8 years, and the Government was deprived of all revenue from such areas. Many millions of people were displaced as refugees, much of the industry of the country was destroyed, the few rail lines were torn up, repaired, and torn up again. After Pearl Harbor the nation suffered almost complete blockade for 3 years. The fraction of the national budget devoted to military expenses has been at the war level for more than a decade, and essential civilian functions have suffered seriously. Despite remarkable success in breaking inflation during 7 years or more, the debt burden eventually reached the point at which inflation became uncontrollable.

Since the close of the Pacific war against Japan the process of reconstruction has been almost wholly arrested. In the words of General Marshall: "Thus far, the principal deterrent to the solution of China's economic problems is the civil war which has drained the Chinese Government's internal and foreign-exchange resources, continued the destruction of property and the constant disruption of economic life, and has prevented recovery. The Communist forces have brought about terrible destruction to wreck the economy of China. This is their announced purpose—to force an economic collapse."

In addition, the occupation of Manchuria by the Russian Army, together with loose reparations terms put into execution by the Soviet forces on the spot, stripped Manchuria of much of its industrial equipment, and the major part of all heavy industry in China. At the same time it facilitated the transfer of vast stores of surrendered Japanese equipment, ammunition, and supplies to the Chinese Communist forces, and the occupation by those forces of large sectors of Manchuria.

The case of China under these conditions is parallel to that of Greece. Economic recovery requires reforms in the finances which depend upon reforms in the Administration, which in turn depend upon some relaxation of military effort, which in turn can come only when secure conditions have been established in areas now torn by guerrilla warfare. The experiment of withholding aid in order to secure reform first has been tried and has had only undesirable effect. In the judgment of the committee there is no question that aid must be given if China is to turn the corner and begin to recuperate, or even to survive as a genuinely independent nation and a friend and ally of the United States.

B. THE INTEREST OF THE UNITED STATES

The interest of the United States in the maintenance of an independent and friendly China, as the basis of American security in the Far East, has been an established principle of United States foreign policy for half a century. China is an immense area, with an immense population. Its economy is largely agricultural and on a subsistence basis. Industrial development was just getting under way when Japan attacked. The special privileges the citizens of certain foreign powers enjoyed for 100 years further complicated the task of achieving full unification and independence. These and other factors delayed modernization and China's role as a world power has been proportionately slight. But during the period of relative peace from 1927 to 1937 China made remarkable progress, especially in education, transportation, and health measures. She had embarked on a real renaissance. It is to be assumed that modernization will go forward again and rapidly, whenever internal order and economic stability can be established.

In area and population China is larger than prewar Europe. As the gap between Chinese and western technology is closed it will become more and more comparable to Europe as one of the great areas of political and economic power in the world. Even when China was under the corrupt Manchu dynasty, and later under the rule of provincial war lords, the United States recognized that it was indispensable to its security that China not fall under control of any other power, in whole or in part. The United States has consistently favored the independence of China against threats to that independence from Japan and other powers. In fact, it was American refusal to accept Japanese seizures of Manchuria and other parts of China that precipitated World War II.

At present there are forces within China, aided and abetted from outside, that are endeavoring to take over the entire country. If no aid is given by the United States one of two results would appear certain—either China, with her huge manpower and resources, will become a Soviet satellite comparable to Poland or Yugoslavia, or civil war will remain a chronic condition with the country torn and prostrated.

Because of the lower level of economic life in China in comparison with Europe, and because China's natural resources are greater and her food production more nearly adequate, the quantity and cost of aid to China is relatively much smaller. But the character of the problem is otherwise the same, and, in the judgment of the committee, the United States can no more afford to see China become a coordinated part of another system than it can afford to see Greece and Turkey become part of another system.

C. TYPE OF AID REQUIRED FOR CHINA

China requires aid of the same type as that extended to the European countries under title I, but it also requires aid of the special types included in the program of Greek-Turkish aid extended under the

Greek-Turkish Aid Act of 1947 (Public Law 75, 80th Cong.). The economy of China requires peace and order more than it requires anything else. But it does need some supplies of commodities beyond the ability of the country to pay for under present conditions, and moderate amounts of capital and equipment for key reconstruction projects. Tentative figures for the use to which the funds available may be put include 60 million dollars for reconstruction projects, 130 million for cereals to feed the large cities cut off from the hinterland, 150 million for raw cotton to keep the textile industry functioning, 110 million for petroleum, 30 million for fertilizer, 28 million for tobacco, 24 million for metals, and 30 million for replacement articles for existing capital equipment. These are not the exact amounts to be expended, but they do indicate the types of goods required and the proportions involved The cereals and cotton are especially important for restoring a better relation of goods to money as a necessary antecedent to any solution of the inflation problem.

The need for peace and order can be met only by strengthening the military capability of the forces that are combating the Communists. The character of Chinese guerrilla warfare, like that of the economy, is relatively backward, and rifle ammunition is a far more important component of fighting power than it would be for western nations. Surprisingly small amounts of aid can therefore have a surprisingly great effect. Trained soldiers cannot fight at all without ammunition, but in order to use modern equipment and supplies effectively, they need good training and their officers need advice and training in planning operation, strategy, and tactics.

The national finances of China are affected by the war both by its imposing great war costs, and by interfering with tax collections in many parts of the country. Only an improvement in central administration and in financial conditions can bring a greater effort by the Government to serve the economy. Only the abolition of military disorder can permit a beginning to be made.

A special provision in section 404 authorizes the establishment of a Joint Commission on Rural Reconstruction by agreement with China, and provision is elsewhere made that not less than 5 percent nor more than 10 percent of the funds provided may be used for the purposes of the Joint Commission.

D. HOW THE PROGRAM WILL BE ADMINISTERED

The arrangements for the administration of the program by the United States Government are made in title IV through reference to the appropriate parts of the Foreign Aid Act of 1947 and of title I of this bill.

Economic aid for China under this title will be under the same Administrator who will be in charge of the European recovery program. There will be a United States mission in China of the same character as those provided for participating countries in Europe. The program will be based upon an agreement reached between the United States and China similar in character to those to be made between the United States and European countries. Section 403 (b) includes by reference all of the stipulations made with regard to such agreements in section 5 of the Foreign Aid Act of 1947 and in section 115 of title I.

A period of 3 months is allowed in which the program can go into effect pending the completion of the agreement to be made. A special provision allows the use of commodities appropriate for China but not included in the authorization for Europe (section 403 (c)). Certain provisions which could not be directly used without alteration from the language of title I or of the Foreign Aid Act of 1947 are given in full. One of these refers to the use of the Export-Import Bank in handling loans under the program, in section 403 (f) and the provision in section 405 covering the special mission to China is another. This section adapts the language of section 109 of title I for the case of China.

Provisions of the Foreign Aid Act of 1947 dealing with the delegation of functions, with the maintenance of a minimum carry-over of wheat, with loyalty checks on personnel, and some other matters are excluded from application to China by section 403 (a). In each case the provision is either better covered by an improved provision in title I that is made applicable, or it is not appropriate to the Chinese case.

Provisions of title I are made applicable by section 403 (e). The sections referred to are those establishing the Economic Cooperation Administration, providing for the functions of the Administrator, the public advisory board, regulations concerning personnel outside the United States, the reimbursement of other agencies by the Administrator, exemption of the operations from certain laws on accounting that are difficult or impossible to apply to operations outside the United States, and provision for cooperation with the United Nations.

The net effect of these provisions is to apply to China all of the most pertinent provisions of the Foreign Aid Act of 1947 and of title I, selecting the better version wherever two versions were available on the same point, and omitting certain provisions that do not apply to China.

E. THE AMOUNT AUTHORIZED

The request submitted to Congress by the executive branch was for $570,000,000 for economic aid to China. No definite provision for military aid was included in the request.

The committee, having in mind the weighty testimony received on the need for military aid, separated the amount requested into two parcels, transferring $150,000,000 to provide aid for China under title III and retaining $420,000,000 for aid under title IV. Since it is possible to provide military advisers and military supplies under title IV, and possible to provide economic aid and economic advisers under title III, this is not an absolute distinction. The separation of the authorization into these two parts rests on the committee's recognition of the sound grounds for carrying on in China, just as in Greece, a program of both economic and military type aid. The restriction in the original Greek-Turkish Aid Act that a limited number of members of the military services of the United States may be detailed to assist those countries in an advisory capacity only applies equally to this title authorizing similar aid to China.

The $420,000,000 allotted for aid of the type provided for European countries in title I should prove adequate for the immediate economic needs of China, if a greater degree of internal order can be established. By easing the immediate economic difficulties it will also contribute to strengthening the country for the effort required by the civil war. Each should act to support the other.

APPENDIXES

Appendix I

Hearings and Witnesses

Hearings on this legislation were opened by the Committee on Foreign Affairs on December 17, 1947, when Hon. Christian A. Herter appeared as a witness to explain special features of the legislation which he proposed as an outcome of the studies made by the Select Committee on Foreign Aid, of which he was vice chairman. Mr. Herter was heard again in the close of the hearings.

On January 12, 1948, the committee heard Secretary of State George C. Marshall, who stressed the urgency of this program and described its broad objectives. Hon. Lewis W. Douglas, United States Ambassador to Great Britain, brought the committee the benefit of his knowledge of European economics and politics in a detailed analysis of the program on January 13, 14, 15, and 20, and again on February 20.

On January 15 the committee heard Hon. James V. Forrestal, Secretary of Defense, who went into the security aspects of the program. He was followed on January 20 by Hon. William C. Clayton, special adviser to the Secretary of State. Mr. Clayton related the program to the broad objectives of the United States in the field of economic foreign policy. The Honorable Kenneth C. Royall, Secretary of the Army, appeared also on January 20 in an exposition of Germany's role in European recovery. The Honorable John W. Snyder, Secretary of the Treasury, discussed before the committee on January 21 the principal financial features of the program. On the same day the Honorable W. Averell Harriman, Secretary of Commerce, who headed one of the three principal committees of the executive establishment which were active in formulating this program, analyzed the impact of the program on the American economy, along with the impact of a failure to act.

The Honorable Clinton P. Anderson, Secretary of Agriculture, presented to the committee on January 22 an analysis of the program in its impact on agricultural and food problems in the United States. The same day the Honorable Julius Krug, Secretary of the Interior, related the program to the national resources, particularly to shortages thereof, and reviewed the work of the committee which he headed, which participated in laying the groundwork of the program. On January 24, the committee was given the benefit of the views of Gen. Lucius Clay, commanding the United States forces in Europe and military governor of the United States zone in Germany, and of Ambassador Robert D. Murphy, United States political adviser in Germany. In executive session they explored the problems of the occupied areas.

The Honorable William McChesney Martin, Jr., Chairman, Board of Directors, Export-Import Bank of Washington, appeared on January 29 to explain the mechanics of financing.

When the committee brought to a close its hearings on the European recovery program on February 27, it had heard 85 witnesses in 27 days of testimony.

In addition to those named above, the witnesses heard on the European recovery program included—

Mr. Paul H. Nitze, Deputy Director, Office of International Trade, Department of State.

Mr. Philip D. Reed, chairman of the board of directors, General Electric Co.

Mr. Henry Hazlitt, economist.

Mr. Herbert H. Schell, National Association of Manufacturers.

Hon. Dean Acheson, member of the executive committee, Committee for the Marshall Plan.

Mr. Elliott Wadsworth, International Chamber of Commerce.

Mr. Henry J. Taylor, author-economist, of New York City.

Mr. O. K. Armstrong, member of the writing staff, Reader's Digest.

Mr. Norman M. Littell, member of the District of Columbia bar.

Mr. J. A. Smith, Northwest Horticultural Council, Wenatchee, Wash.

Mr. C. A. Barrett, president, Tate-Jones & Co., Pittsburgh, Pa.

Mr. William D. Davies, representative of Foreign Freight Forwarders and Brokers Association of New York.

Mr. David D. Lloyd, representative of Americans for Democratic Action.

Mr. Chat Paterson, representative of the American Veterans' Committee.

Mr. Allan B. Kline, president, American Farm Bureau Federation.

Mr. Joseph Scott, president, American League for Undivided Ireland.

Mr. John N. Costello, representative of American League for Undivided Ireland.

Hon. Martin L. Sweeney, former Member of Congress from Ohio, representing the Ancient Order of Hibernians.

Mr. James Cummins, representative of United Societies of San Francisco.

Mr. James J. Comerford, president, United Irish Counties Association of New York, Inc.

Mr. Cornelius F. Neenan, chairman, organization committee, American League for Undivided Ireland.

Mr. John J. Reilly, representative of Friendly Sons of St. Patrick.

Mr. Patrick J. McNelis, president, Federation of Irish Societies.

Mr. Owen B. Hunt, of Owen B. Hunt Adjustment Bureau, Philadelphia, Pa.

Mr. Charles T. Rice, member, executive committee, American League for Undivided Ireland.

Mr. Richard F. Dalton, member, executive committee, American League for Undivided Ireland.

Mr. Lewis H. Brown, chairman of the board, Johns-Manville Corp.

Mrs. Kathryn H. Stone, first vice president, League of Women Voters of the United States.
Mrs. Margaret F. Stone, National Women's Trade Union League.
Dr. Mabel Newcomer, national board, American Association of University Women.
Mr. George Weller, foreign correspondent, Chicago Daily News.
Mrs. J. L. Blair Buck, president, General Federation of Women's Clubs.
Mr. Robert P. Koenig, president, Ayrshire Collieries Corp.
Mr. William L. Batt, president, SKF Industries, Inc.
Mr. Frazer A. Bailey, president, National Federation of American Shipping.
Mrs. Katherine Lee Marshall, legislative secretary, Women's International League for Peace and Freedom, United States section.
Mr. Leonard H. Pasquallicchio, representative of Order Sons of Italy in America.
Hon. George H. Earle, former Governor of Pennsylvania.
Mr. Edgar Ansel Mowrer, Society for the Prevention of World War III.
Mr. Jean Pajus, economic adviser, Society for the Prevention of World War III.
Mr. Carl B. Fritsche, vice president, Reichhold Chemicals, Tuscaloosa, Ala.
Mr. Merwin K. Hart, president, National Economic Council, Inc.
Hon. Jack Z. Anderson, Representative in Congress from the State of California.
Mr. Francis R. Wilcox, assistant general manager, California Fruit Growers Exchange.
Mr. Harry C. Dunlap, vice president, Dried Fruit Association, San Francisco, Calif.
Mr. Marvin Walker, manager, Florida Citrus Commission.
Mr. William Green, president, American Federation of Labor.
Hon. Hamilton Fish, former Member of Congress from the State of New York.
Dr. Winfield W. Riefler, professor of economics, Institute of Advanced International Studies, Princeton, N. J.
Mr. J. T. Sanders, legislative counsel, The National Grange.
Mr. Hoyt S. Haddock, executive secretary, CIO Maritime Committee.
Mr. George Baldanzi, executive vice president, Textile Workers Union of America, CIO.
Mr. A. G. Bryant, president, National Machine Tool Builders' Association.
Mr. Wayne C. Taylor, member of research and policy committee, Committee for Economic Development.
Hon. Hale Boggs, Representative in Congress from the State of Louisiana.
Mr. Richard M. Bissell, Jr., former executive secretary, Harriman committee.
Hon. Francis Case, Representative in Congress from the State of South Dakota.
Hon. Henry A. Wallace, former Vice President of the United States.

Mr. Allen Welsh Dulles, president, Council on Foreign Relations, New York City.
Mr. Raymond P. Baldwin, appeal board, Office of Contract Settlement.
Hon. Frederick C. Smith, Representative in Congress from the State of Ohio.
Mr. Ernest T. Weir, chairman, National Steel Corp.
Hon. William J. Miller, Representative in Congress from the State of Connecticut.
Hon. Reid F. Murray, Representative in Congress from the State of Wisconsin.
Hon. Homer E. Capehart, United States Senator from Indiana.
Mr. Edwin B. George, consultant to the Select Committee on Foreign Aid.
Hon. John C. Kunkel, Representative in Congress from the State of Pennsylvania.
Hon. Ralph W. Gwinn, Representative in Congress from the State of New York.
Hon. Kenneth B. Keating, Representative in Congress from the State of New York.
Hon. Francis E. Walter, Representative in Congress from the State of Pennsylvania.
Dr. John H. Williams, professor of political economy, Harvard University.
Hon. A. S. Mike Monroney, Representative in Congress from the State of Oklahoma.

On the other aspects of this bill the committee heard 15 additional witnesses through 7 days of testimony. Significant testimony was presented by the Honorable William C. Bullitt, former United States Ambassador to the Soviet Union and to France, who stressed the strategic considerations in the Far East. These were touched upon forcefully also by Lt. Gen. Albert C. Wedemeyer, General Staff, United States Army, former chief of a special mission to China, and by Maj. Gen. Claire Chennault, United States Army, retired, who led the United States Air Forces in China in World War II.

Other witnesses heard included:

Mr. N. F. Allman, attorney, of Shanghai, Washington, D. C.
Maj. Gen. A. M. Harper, assistant to Lt. Gen. Van Fleet, chief of military mission in Greece.
Maj. Gen. H. L. McBride, American Mission for Aid to Turkey.
Mr. George C. McGhee, Coordinator for Aid to Greece and Turkey, Department of State.
Hon. Walter Robertson, of Richmond, Va.
Hon. William Draper, Under Secretary of the Army.
Maj. Gen. Lowell W. Rooks, Director General, UNRRA.
Maj. Gen. Glenn Edgerton, United States Army.
Mr. M. Harlan Cleveland, former chief, UNRRA mission to China.
Mr. C.E. Gauss, Export-Import Bank of Washington.
Rear Adm. R. H. Hillenkoetter, Director of Central Intelligence.
Col. J. M. McHugh, United States Marine Corps, retired.

APPENDIX II

SELECTION OF ILLUSTRATIVE TABLES

EUROPEAN RECOVERY PROGRAM COMMITTEE

RECAPITULATION TABLE

Illustrative composition of imports of commodities and services from Western Hemisphere, and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Own resources	Sources other than new United States funds	United States funds
Bread grains	$1,600.3	$138.8	$336.7	$1,124.8
Coarse grains	552.3	68.6	66.6	417.1
Fats and oils	378.4	29.2	76.2	273.0
Oil cake	190.7	17.4	33.3	140.0
Sugar	295.8	35.1	33.4	227.3
Meat	393.1	14.5	33.3	345.3
Dairy products	275.2			275.2
Eggs	85.3	6.7		78.6
Dried fruit	34.3	2.8		31.5
Rice	47.8	3.1		44.7
Coffee	156.6	34.1	38.3	84.2
Other foods	168.0	23.5		144.5
Subtotal	4,177.8	373.8	617.8	3,186.2
Tobacco	293.4	28.6		264.8
Cotton	790.0	49.0	42.1	698.9
Nitrogen	42.8	5.2		37.6
Phosphates	3.1	.5		2.6
Potash				
Agricultural machinery	158.7	12.6	12.9	133.2
Coal	389.3	13.5		375.8
Mining machinery	81.9	1.0	2.9	78.0
Petroleum products	651.9	333.5		318.4
Timber	333.4	185.7	16.0	131.7
Iron and steel:				
Finished	226.7	85.9	21.7	119.1
Crude and semi-finished	86.2	62.6		23.6
Pig iron	1.6	.2		1.4
Scrap iron	2.0			2.0
Iron ore	8.8			8.8
Trucks	116.8	17.0	21.8	78.0
Freight cars	60.0			60.0
Steel equipment	48.1		9.1	39.0
Timber equipment	17.0	.4		16.6
Electrical equipment	95.0	5.0	6.0	84.0
Other imports	4,228.2	3,210.8	408.0	609.4
Total commodity imports	11,812.7	4,385.3	1,158.3	6,269.1
Net freight	827.0	235.5		591.5
Other dollar payments	319.4	319.4		
Total	12,959.1	4,940.2	1,158.3	6,860.6

European Recovery Program

Illustrative composition of imports of commodities and services from Western Hemisphere, Apr. 1, 1948, through June 30, 1949, and possible sources and distribution of financing

[All values in July 1, 1947, prices and millions of dollars]

RECAPITULATION OF POSSIBLE DISTRIBUTION OF NEW UNITED STATES FUNDS BY COUNTRY AND COMMODITY, SHOWING AVERAGE PRICES FOR EACH COMMODITY AND ESTIMATED QUANTITY OF IMPORTS

Item	Unit of quantity	Price [1]	Total, all countries		Austria		Belgium-Luxemburg and dependencies		Denmark		France and dependencies		Greece	
			Value [1]	Quantity [1]	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
Bread grains	Thousand bushels	$2.54 per bushel	$1,124.8	443,213	$36.3	14,812	$59.1	19,689	$0.5	188	$103.9	35,625	$47.4	19,125
Coarse grains	do	$2.29 per bushel	417.1	182,070	4.4	2,700	55.4	23,490	33.0	13,500	56.6	24,525	4.8	2,925
Fats and oils	Thousand pounds	$0.293 per pound	273.0	931,022	12.5	48,501	22.2	77,161	8.8	28,660	48.3	165,345	.8	2,205
Oilcake	Thousand short tons	$100.32 per short ton	140.0	1,396	1.6	16	28.1	283	37.4	368	20.8	214	.6	8
Sugar	Thousand hundred-weight.	$5.145 per hundred-weight.	227.3	44,180	5.4	772	10.5	2,094			19.8	3,968	16.6	2,359
Meat	do	$12.89 per hundred-weight.	345.3	26,786	8.8	838	13.3	1,323			.8	66	8.8	484
Dairy products	Thousand pounds	$0.205 per pound	275.2	1,344,806	4.1	35,274	26.0	127,867			26.7	145,504	35.4	235,892
Eggs	Thousand dozen	$0.371 per dozen	78.6	211,642							1.8	4,410	.9	2,940
Dried fruit	Thousand short tons	$199.84 per short ton	31.5	158	1.5	8	.8	5	.4	2	2.0	10		
Rice	Thousand hundred-weight.	$10.04 per hundred-weight.	44.7	4,453			.8	88	.2	22	4.6	463	.6	66
Coffee	Thousand pounds	$0.263 per pound	84.2	320,152	4.0	15,212	10.5	38,801	15.2	58,433	7.6	27,788	2.7	11,033
Other foods:														
Pulses	Thousand hundred-weight.	$7.50 per hundred-weight.	47.6	6,347	4.9	655								
Fresh fruit	Thousand pounds	$0.053 per pound	64.1	1,216,939			7.0	138,890			7.4	141,094		
Cocoa	do	$0.315 per pound	32.8	104,127	1.4	4,630	9.8	30,864	2.1	6,614			.7	2,425
Subtotal			3,186.2		84.9		243.5		97.6		300.3		119.3	
Tobacco	Thousand pounds	$0.451 per pound	264.8	586,645	2.9	8,818	21.5	63,933	7.5	19,841	18.1	55,115		
Cotton	do	$0.363 per pound	698.9	1,927,924	16.9	44,092	18.1	48,501	6.9	18,741	156.3	423,283	6.5	17,637
Nitrogen	Thousand short tons	$181.44 per short ton	37.6	207			.4	2	1.6	9	11.8	65	2.4	13
Phosphates	do	$26.80 per short ton	2.6	97			.4	14						
Agricultural machinery			133.2		1.6						59.7		7.9	
Coal	Thousand long tons	$9.14 per long ton	375.8	41,093			20.5	2,235	10.9	1,189	206.2	22,550	.2	18
Mining machinery			78.0		.5						10.7			
Petroleum products	Thousand barrels	$2.90 per barrel	318.4	109,829			10.9	3,168	13.4	4,329	146.5	56,743	8.3	2,044
Timber	Million board feet	$0.108 per board foot	131.7	1,222,672					3.7	47,906	19.6	223,846	4.5	19,502

See footnotes at end of table, p. 69.

EUROPEAN RECOVERY PROGRAM—Continued

Illustrative composition of imports of commodities and services from Western Hemisphere, Apr. 1, 1948, through June 30, 1949, and possible sources and distribution of financing—Continued

RECAPITULATION OF POSSIBLE DISTRIBUTION OF NEW UNITED STATES FUNDS BY COUNTRY AND COMMODITY, SHOWING AVERAGE PRICES FOR EACH COMMODITY AND ESTIMATED QUANTITY OF IMPORTS—Continued

Item	Unit of quantity	Price [1]	Total, all countries		Austria		Belgium-Luxemburg and dependencies		Denmark		France and dependencies		Greece	
			Value [1]	Quantity[1]	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
Iron and steel:														
Finished	Thousand long tons	$111.76 per long ton	$119.1	1,066			$3.6	32	$9.8	87	$17.5	156	$7.0	63
Crude and semifinished.	do	$64 per long ton	23.6	369			4.2	66			10.0	156		
Pig iron	do	$36.58 per long ton	1.4	38										
Scrap	do	do	2.0	55	$2.0	55			.5	13				
Iron ore	do	$6.10 per long ton	8.8	1,443										
Trucks	Number	$1,500 per unit	78.0	51,931	3.8	2,500			11.2	7,500	5.5	3,700	7.3	4,875
Freight cars	do	$3,000 per unit	60.0	20,000										
Steel equipment			39.0		4.2				.5		13.8			
Timber equipment			16.6		4.0						8.9		1.0	
Electrical equipment			84.0		.7				.5		10.0		1.0	
Other imports			609.4		20.5						176.3			
Total commodity imports.			6,269.1		142.0		323.1		164.1		1,171.2		165.4	
Net freight			591.5		40.0						263.0		20.5	
Total			6,860.6		182.0		323.1		164.1		1,434.2		185.9	

Item	Unit of quantity	Price [1]	Iceland		Ireland		Italy		Netherlands and dependencies		Norway	
			Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity
Bread grains	Thousand bushels	$2.54 per bushel	$1.5	563	$26.5	8,437	$243.3	89,475	$71.8	25,575		
Coarse grains	do	$2.29 per bushel	.5	225	37.2	15,075	17.2	7,515	70.3	29,700		
Fats and oils	Thousand pounds	$0.293 per pound	1.4	2,886	3.1	8,818	20.7	72,752	40.5	125,663		
Oil cake	Thousand short tons	$100.32 per short ton			1.4	16	4.1	41	21.9	219		
Sugar	Thousand hundredweight	$5.145 per hundredweight	1.2	176	7.2	1,433	2.8	551	6.6	1,323		
Meat	do	$12.89 per hundredweight					7.0	463	4.2	397		
Dairy products	Thousand pounds	$0.205 per pound					7.2	46,297	1.7	17,637		
Eggs	Thousand dozen	$0.371 per dozen										
Dried fruit	Thousand short tons	$199.84 per short ton	.2	1	.7	4			3.3	17		
Rice	Thousand hundredweight	$10.04 per hundredweight							.6	66		
Coffee	Thousand pounds	$0.263 per pound	.7	1,984	.6	1,764	9.5	36,377	17.7	67,241		
Other foods:												
Pulses	Thousand hundredweight	$7.50 per hundredweight			.5	66	6.1	809				
Fresh fruit	Thousand pounds	$0.053 per pound	.2	4,409	.8	8,818			4.1	81,570		
Cocoa	do						4.1	13,228	10.5	33,069		
Subtotal			5.7		78.0		322.0		253.2			
Tobacco	Thousand pounds	$0.451 per pound	.1	221	8.3	17,637	4.5	11,023	23.4	61,729		
Cotton	do	$0.363 per pound			2.0	6,614	149.5	416,669	32.9	90,389		
Nitrogen	Thousand short tons	$181.44 per short ton	.2	1	.4	2	1.2	7	6.2	34		
Phosphates	do	$26.80 per short ton							.6	23		
Agricultural machinery			.8		1.6		5.0		8.8		4.8	
Coal	Thousand long tons	$9.14 per long ton	.9	106	11.2	1,228	88.0	9,622	25.8	2,824		
Mining machinery									2.3			
Petroleum products	Thousand barrels	$2.90 per barrel	1.7	548	13.0	3,088	61.2	21,397	32.2	9,621		
Timber	Million board feet	$0.108 per board foot	1.3	14,414	7.1	66,560	13.8	163,221	25.2	256,066		
Iron and steel:												
Finished	Thousand long tons	$111.76 per long ton			1.6	14	6.9	60	53.8	489	18.9	165
Crude and semifinished	do	$64 per long ton					8.0	126			1.4	21
Pig iron	do	$36.58 per long ton					.9	25				
Scrap	do	do										
Iron ore	do	$6.10 per long ton										
Trucks	Number	$1,500 per unit	1.0	675	1.9	1,250			23.2	15,456	2.5	1,625
Freight cars	do	$3,000 per unit										
Steel equipment					.4		4.5		4.6		2.5	
Timber equipment												
Electrical equipment					1.0		7.0		6.3		4.0	
Other imports			1.0		25.3		62.3		206.5			
Total commodity imports.			12.7		151.8		734.8		705.0		34.1	
Net freight							134.0					
Total			12.7		151.8		868.8		705.0		34.1	

See footnotes at end of table, p. 69.

EUROPEAN RECOVERY PROGRAM—Continued

Illustrative composition of imports of commodities and services from Western Hemisphere, Apr. 1, 1948, through June 30, 1949, and possible sources and distribution of financing—Continued

RECAPITULATION OF POSSIBLE DISTRIBUTION OF NEW UNITED STATES FUNDS BY COUNTRY AND COMMODITY, SHOWING AVERAGE PRICES FOR EACH COMMODITY AND ESTIMATED QUANTITY OF IMPORTS—Continued

Item	Unit of quantity	Price [1]	Sweden		United Kingdom and dependencies		Western Germany					
							Bizone		French zone		Saar	
			Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quanity
Bread grains	Thousand bushels	$2.54 per bushel			$198.3	98,287	$284.6	112,500	$44.6	16,125	$7.0	2,812
Coarse grains	do	$2.29 per bushel			83.6	36,990	54.1	25,425				
Fats and oils	Thousand pounds	$0.293 per pound			90.2	304,234	24.5	94,797				
Oil cake	Thousand short tons	$100.32 per short ton			24.1	231						
Sugar	Thousand hundredweight	$5.145 per hundredweight			128.1	25,661	27.5	5,512	1.6	331		
Meat	do	$12.89 per hundredweight			296.2	22,753	6.2	462				
Dairy products	Thousand pounds	$0.205 per pound			164.2	637,128	9.9	99,207				
Eggs	Thousand dozen	$0.371 per dozen			75.9	204,292						
Dried fruit	Thousand short tons	$199.84 per short ton			17.1	83	5.5	28				
Rice	Thousand hundredweight	$10.04 per hundredweight			37.9	3,748						
Coffee	Thousand pounds	$0.263 per pound			13.2	49,604	2.2	10,813	.3	1,102		
Other foods:												
Pulses	Thousand hundredweight	$7.50 per hundredweight			12.2	1,625	23.9	3,192				
Fresh fruit	Thousand pounds	$0.053 per pound			44.6	842,158						
Cocoa	do	$0.315 per pound			4.2	13,297						
Subtotal					1,189.8		438.4		46.5		7.0	
Tobacco	Thousand pounds	$0.451 per pound			160.4	295,416	16.1	46,297	2.0	6,615		
Cotton	do	$0.363 per pound			226.6	634,925	66.5	182,982	16.7	44,091		
Nitrogen	Thousand short tons	$181.44 per short ton			1.4	8	12.0	66				
Phosphates	do	$26.80 per short ton			.5	18	1.1	42				
Agricultural machinery			12.7		20.8		8.4		1.1			
Coal	Thousand long tons	$9.14 per long ton			12.1	1,321						
Mining machinery					32.6		28.0				3.9	
Petroleum products	Thousand barrels	$2.90 per barrel					22.5	6,840	8.7	2,051		
Timber	Million board feet	$0.108 per board foot			56.5	431,157						
Iron and steel:												
Finished	Thousand long tons	$111.76 per long ton										
Crude and semifinished.	do	$64 per long ton										
Pig iron	do	$36.58 per long ton										
Scrap	do	do										
Iron ore	do	$6.10 per long ton			8.8	1,443						

Trucks	Number	$1,500 per unit	12.2	8,100			9.4	6,250				
Freight cars	do	$3,000 per unit					60.0	20,000				
Steel equipment					8.5				.7			
Timber equipment					1.7		.3					
Electrical equipment			8.0		40.5		5.0					
Other imports							112.8		4.7			
Total commodity imports.			32.9		1,760.2		780.5		80.4		10.9	
Net freight							134.0					
Total			32.9		1,760.2		914.5		80.4		10.9	

[1] The price shown is the average price of the estimated imports which might be purchased with new United States funds. The total value equals the total quantity multiplied by the average price. The sum of the values shown in the individual country columns equals the total value and the sum of the quantities shown in the individual country columns equals the total quantity. However, the value shown for a commodity for any one country cannot in some cases be obtained by multiplying the quantity of imports by the average price. This is because of differences in export prices between various sources of supply in the Western Hemisphere.

As is explained on p. 5 of the paper, "Illustration Composition of Imports * * *," the total value of estimated imports of $6,860,000,000 must be adjusted as follows for comparability with the authorization of $6,800,000,000 requested for European recovery:

		Millions
Total value of estimated imports at July 1, 1947, prices		$6,860
Add:		
Adjustment for price increases after July 1, 1947	$482	
Uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere	200	
Authority to obligate funds for procurement of items to be delivered in subsequent period	200	
		882
		7,742
Subtract:		
Savings on shipping	100	
Appropriation being requested by Department of Army for prevention of disease and unrest in Germany (GARIOA)	822	
Rounding	20	
		942
Authorization requested for European recovery program		6,800

RELATIONSHIP OF ESTIMATED OBLIGATIONS, SHIPMENTS, AND EXPENDITURES, APRIL 1, 1948, TO JUNE 30, 1949

The following table explains the relationship of anticipated obligations, shipments and expenditures to the appropriation of $6,800,000,000 requested for the first 15 months of the European recovery program.

In order to carry out the program, shipments totaling $6,600,000,000 must be made in the 15 months from April 1948 through June 1949. It is estimated that $600,000,000 of these shipments will be in the pipe line at the beginning of the period and will have been financed from various sources other than ERP funds. The ERP appropriation will be used to finance the balance of $6,000,000,000 of needed shipments in the 15-month period. The difference between this sum and the requested appropriation, or $800,000,000, is the gross amount necessary to cover obligations which must be made prior to June 30, 1949, for shipments which will not be made until after this date. This pipe line of $800,000,000, amounting to less than 2 months' average shipments, is regarded as the minimum essential to avoid an interruption in the flow of supplies. If the amount which has been requested is reduced below $6,800,000,000, it will be necessary, therefore, either to allow the pipe line to become empty or to reduce shipments financed by United States funds under the program below the required level of $6,000,000,000 during the first 15 months. Either course would jeopardize the success of the program.

Because of the necessary lag between the time of shipment and the time of payment, it is estimated that, of the $6,000,000,000 to be shipped under the program during the first 15 months, final payments for approximately $4,500,000,000 will have been completed before July 1, 1949. The remainder of the $6,000,000,000 (i. e., $1,500,000,000) shipped during the period will not be paid for until early in the fiscal year 1950. This $1,500,000,000 together with the obligations entered into in fiscal 1949 for shipments after June 30, 1949 ($800,000,000) equals the difference between the requested appropriation of $6,800,000,000 and estimated actual expenditures of $4,500,000,000 during the 15-month period.

Relationship of estimated obligations, shipments, and expenditures, Apr. 1, 1948, to June 30, 1949

[In millions of dollars]

Method of procurement	Estimated over-all obligations required [1]	Estimated shipments required between Apr. 1, 1948, and June 30, 1949, which are to be financed from ERP funds			Estimated gross obligations in fiscal year 1949 for shipments after June 30, 1949 [5]	Total obligations required June 30, 1949, which will not be paid until fiscal year 1950 (column 4+5) [6]
		Total [2]	Portion covered by expenditures during 15-month period (obligated for, shipped, and payments made during period) (column 2−4) [3]	Portion covered by expenditures in fiscal year 1950 (obligated for and shipped during period but payments not made until after June 30, 1949) [4]		
	(1)	(2)	(3)	(4)	(5)	(6)
1. Procurement through normal private trade channels in United States. Purchases from United States suppliers by importers or governmental agencies of participating countries, for which payment will be made direct to United States supplier or on reimbursement basis. Amount includes purchases financed by Export-Import Bank loans and private investments covered by guaranties	$2,900	$2,495	$1,975	[7] $520	[8] $405	$925
2. Procurement both in United States and "off-shore" by United States Government agencies	1,600	1,455	1,155	[9] 300	145	445
3. "Off-shore" procurement through normal trade channels	2,300	2,050	1,370	[10] 680	[11] 250	930
4. Total	6,800	6,000	4,500	1,500	800	2,300

See footnotes at end of table, p. 71.

Relationship of estimated obligations, shipments, and expenditures, Apr. 1, 1948, to June 30, 1949—Continued

[1] This column shows the total amount which must be committed from Apr. 1, 1948, through June 30, 1949, to permit actual shipments during that period (column 2) plus an uninterrupted pipe line into the next year and early placement of orders for "long lead" items. The division between methods of procurement is a very rough approximation and is used for illustrative purposes only.

[2] Shipments included in the program estimates during the 15-month period are about $6,600,000,000, of which about $600,000,000 will be in the pipe line at the start of the period and will have been financed from sources other than ERP funds. About $100,000,000 of this will consist of shipments under the Foreign Aid Act for which funds will have been obligated prior to Apr. 1, 1948, and the rest will consist of shipments financed from existing loans and credits and from resources of the participating countries committed before Apr. 1, 1948. This leaves shipments of $6,000,000,000 to be financed under the program. (See also last paragraph of note to column 5.)

[3] Total expenditures during the 15-month period are that portion of total shipments (column 2) for which complete documentation can be obtained and payments completed before the end of the period.

[4] Column 4 is an estimate of the shipments made before June 30, 1949, which cannot be paid for until after that date because of the time necessary for submission and review of the necessary supporting documents. These estimates are based on the average time lags shown in parentheses below each figure, which are derived from a comparison of actual experience under lend-lease, UNRRA, Government and relief in occupied areas (GARIOA) and the current foreign relief program with the commodities and procurement methods contemplated under ERP. The actual time lag for lend-lease and UNRRA was greater than shown in these estimates. For the current foreign relief program, which is limited to a few bulk commodities, the time lag is slightly less. The figures given are averages for all commodities in each category, and for any one commodity the figure may vary considerably from the average. In making the computations it has been assumed that the rate of shipment during the last half of fiscal 1949 will be at approximately $1,500,000,000 each quarter since the obligations entered into early in the program will result in a higher level of shipments during the last part of the fiscal year than in the early period. The shipments will be financed during the time lag (until reimbursement by the United States) by short-term credits extended by the suppliers, by commercial banks, and to some extent by the use of the reserves of the participating countries.

[5] Column 5 shows the amounts (totaling $800,000,000) which must be committed in fiscal 1949 so that the flow of goods will not be interrupted by the end of the fiscal year. The figures for this year-end pipe line are based on the average time lag between placement of an order and shipment, as shown parenthetically. These time-lag estimates, like those in column 4 are based on experience with lend-lease, UNRRA, GARIOA and the current foreign relief program modified to fit ERP conditions, and the same comments apply.

Line 1 of column 5 also includes certain key recovery items which take a long time to procure and for which orders should therefore be placed as early as possible. These "long lead" items include machinery, freight cars, and similar articles essential to the attainment of European production goals in the later years of ERP.

This table indicates that the requested amount of $6,800,000,000 is necessary in order to make shipments financed by ERP funds of $6,000,000,000 during the 15-month period and to have $800,000,000 worth of goods in the pipe line on June 30, 1949. Inasmuch as the balance-of-payments deficit computations on p. 42 of the committee print of Outline of the European Recovery Program included total shipments during the 15-month period, only the net amount of $200,000,000 was included in the tabulation on p. 43 of the committee print (item 8) on account of requirements for forward obligating authority, in order to avoid duplication. This $200,000,000 represents the net difference between the value of goods ($600,000,000) assumed to be in the pipe line at the start of the 15-month period and financed from sources outside of the program prior to Apr. 1, and the value of goods ($800,000,000) estimated to be in the pipe line at the end of the 15-month period and financed out of ERP funds.

[6] These figures, the sum of columns 4 and 5, show the total of 1949 commitments which cannot be paid until 1950, either because of delays in documenting completed shipments (column 4) or because the ship ments themselves will not be made until fiscal year 1950 (column 5).

[7] 2 to 3 months' lag.

[8] 4 to 6 weeks' pipe line except for "long lead" items.

[9] 2 to 4 months' lag.

[10] 3 to 5 months' lag.

[11] 6 to 8 weeks' pipe line.

Gold and Dollar Balances of the 16 Participating Countries

At the request of the Senate Finance Committee, the National Advisory Council prepared information with respect to foreign gold and dollar balances in the United States as of June 30, 1947. Through the courtesy of the Senate Finance Committee this information has been used to prepare the following table (as of June 30, 1947, in millions of dollars):

TABLE I[1]

[In millions of dollars]

Country	Gold [2]	Dollar balances [3]		Total resources
		Official	Private	
Austria	10			10
Belgian monetary area (including Luxembourg and Belgian Congo)	659	28	166	853
Denmark	32	17	35	84
Eire	11	3	15	29
French monetary area (including dependencies in International Monetary Fund French quota)	700	106	210	1,016
Greece	20	15	17	52
Iceland	1	3	4	8
Italy	60	79	108	247
Netherlands and Netherland West Indies	214	65	155	434
Norway	77	29	62	168
Portugal and dependencies	390	12	32	434
Sweden	168	24	109	301
Switzerland	1,355	67	329	1,751
Turkey	191	16	35	242
United Kingdom and dependencies included in International Monetary Fund quota of United Kingdom	2,360	49	347	2,756
Total	6,248	513	1,624	8,385

[1] Tables I through VI are taken from appendix A of Preliminary Report 15 of the House Select Committee on Foreign Aid entitled "Inflation and Methods of Financing Any Foreign-Aid Program," Feb. 15, 1948.

[2] Official gold holdings; for countries whose holdings have not been published, available estimates have been made.

[3] Deposits and other short-term dollar resources, as reported by banks, bankers, brokers, and dealers in the United States to the Federal Reserve banks and the U. S. Treasury.

The National Advisory Council report to the Senate Finance Committee points out that "most of these resources constituted reserves needed by their holders to finance the current flow of international trade or to back their currencies. Holdings not so required may be estimated roughly as follows: (*a*) About 1.5 billion dollars held by Switzerland, Portugal, and Turkey * * *." These are the only participating countries estimated by the National Advisory Council to have excess gold and dollar reserves as of June 30, 1947. That of Switzerland is the most important one from the point of view of the problems under consideration by the committee. Switzerland is a very small country but soundly administered in a financial sense. It also enjoyed the advantages of neutrality during the war. As a result, it ended the war with ample monetary reserves and has been able to maintain a good position because it was able to export. While the economy of Switzerland is not sufficiently large to enable it to assume much risk, the country is in a position not only to supply capital imports needed by the deficit countries, but also to provide for their financing, particularly if the recovery plan as a whole is conceived on a sound basis.

TABLE II.—EXPORT-IMPORT BANK POSITION AS OF DEC. 31, 1947 [1]

[In millions of dollars]

Total, lending authority	3,500.0
Loans outstanding	1,970.7
Loans authorized but not disbursed	1,032.0
Total loans and commitments	3,002.7
Net free lending balance	497.3

[1] See footnote 1 to table I.

Scheduled repayments by calendar years over next 5 years of loans outstanding Dec. 31, 1947

	Millions		Millions
1948	$131.7	1951	$92.1
1949	74.8	1952	114.5
1950	90.4		

The tabulation below details Export-Import Bank loan activities with the CEEC countries. It will be noted that as of December 31, 1947, of Export-Import Bank loans authorized of $1,951,000,000 to 10 CEEC countries there remained an undisbursed balance of $312,700,000 to 9 of these countries.

EXPORT-IMPORT BANK OF WASHINGTON

Statement of loans and authorized credits to the 16 participating countries for the period July 1, 1945, to Dec. 31, 1947

Country	Credits authorized, July 1, 1945, to Dec. 31, 1947	Cancellations, July 1, 1945, to Dec. 31, 1947	Balance not yet disbursed, Dec. 31, 1947	Amount disbursed, July 1, 1945 to Dec. 31, 1947	Principal repaid on loans, July 1, 1945 to, Dec. 31, 1947	Principal outstanding on loans Dec. 31, 1947	Interest received, July 1, 1945, to Dec. 31, 1947
Austria	$14,255,000		$14,255,000				
Belgium	150,000,000		50,000,000	$100,000,000	$2,750,152	$97,249,848	$3,101,524
Denmark	20,000,000		5,000,000	15,000,000		15,000,000	313,102
France	1,200,000,000		38,000,000	1,162,000,000	23,097,500	1,138,902,500	16,848,126
Western Germany	19,000,000		14,430,904	4,569,096		4,569,096	
Greece	25,000,000		15,200,000	9,800,000		9,800,000	111,158
Iceland							
Ireland							
Italy	134,263,812	$2,700,000	102,025,507	29,538,305	11,570,785	17,967,520	106,590
Luxemburg							
Netherlands	303,161,813	[1] 97,768,670	108,597	205,284,546	12,460,519	192,824,027	5,136,065
Norway	50,000,000		40,000,000	10,000,000		10,000,000	90,000
Portugal							
Sweden							
Switzerland							
Turkey	36,060,000		33,736,818	2,323,182	233,592	2,089,590	3,766
United Kingdom							
Total	1,951,740,625	100,468,670	312,756,826	1,538,515,129	50,112,548	1,488,402,581	25,710,331

[1] Includes $93,283,670 advanced by participating commercial banks.

TABLE III.—INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT [1]

Statement of actual and potential United States dollar resources as of Dec. 31, 1947

[In millions of dollars]

Dollar and gold assets:			
Gold			4.0
Dollar balances			51.0
U. S. Government securities			410.9
Demand note of U. S. Government			215.7
Gold or dollars receivable (postponed to 1951)			4.9
Total			686.5
Less: Loans authorized but not disbursed [2]			196.8
Net free United States dollar balance			489.7
Add:			
Potential dollars, receivable from sale of securities based on United States guaranty as follows:			
United States commitment		3,175.0	
Less:			
Already paid in dollar securities	635.0		
Already sold	250.0		
		885.0	
Remaining free United States guaranty			2,290.0
Total actual and potential United States dollar resources			[3] 2,779.7

[1] See footnote 1 to table I.
[2] Status of individual loan commitments (millions):

Borrower	Commitment	Disbursed	Unused balance
France	$250.0	$227.0	$23.0
Netherlands	195.0	66.7	128.3
Denmark	40.0	1.3	38.7
Luxemburg	12.0	[a] 5.2	6.8

[a] There is included in the disbursements under this loan 0.3 million dollars which represents United States dollar equivalent of 13.1 million Belgian francs actually disbursed.

[3] The above tabulation only takes account of actual and potential United States dollar and gold resources, on hand or receivable. It does not take into account other member currencies on hand or receivable, nor possible dollar borrowing power (unlikely at present) based on other member guaranties. The tabulation strips down the total assets of the bank to actual and probable potential United States dollar availabilities, as requests for loans from the bank in the near future will presumably be largely confined to requests for United States dollar loans.

TABLE IV.—INTERNATIONAL MONETARY FUND GOLD AND DOLLAR POSITION [1] AS OF NOV. 28, 1947

[In millions of dollars]

Gold holdings	1, 356. 0
United States dollar holdings	1, 626. 4
Total	2, 982. 4

[1] See footnote 1 to table I.

It should be noted that in this period of monetary pressures the Fund is undoubtedly active and receiving requests for purchases of dollars from the Fund. It is possible that further sales of dollars have been made and not yet publicly announced.

The following countries have made United States dollar purchases from the Fund:

	Million		*Million*
Chile	$7. 5	Netherlands	$30. 0
Denmark	3. 4	Turkey	5. 0
France	125. 0	United Kingdom	240. 0
Mexico	22. 5		

The permitted drawings of dollars from the Fund within 1 year of the drawings are limited to 25 percent of the member's paid subscription to the Fund. Under this provision, 1-year dollar drawing quotas for the CEEC countries which are members of the Fund are as follows:

	Million		*Million*
Belgium	$56. 2	Luxemburg	$0. 2
Denmark	17. 0	Netherlands	68. 7
France	131. 2	Norway	12. 5
Greece	[1] 10. 0	Turkey	10. 7
Iceland	. 2	United Kingdom	325. 0
Italy	[1] 45. 0		

[1] These countries have been accepted into membership in the Fund but are not yet entitled to buy other currencies from the Fund because the par values of their currencies have not been determined and the gold payments due on their subscriptions have not been paid into the Fund.

For practical purposes a country drawing on the Fund must repay a substantial portion in gold or dollars the following year, unless the monetary reserves of the country have decreased by more than the Fund's holdings of that country's currency have increased during that year.

The following countries which participated in the Paris Conference are not members of the Fund:

Austria	Ireland	Sweden
Germany	Portugal	Switzerland

British Loan From United States Treasury

On July 15, 1946, the United States Treasury was authorized to lend the United Kingdom $3,750,000,000. Up to January 3, 1948, disbursements of $3,550,000,000 have been made leaving a remaining balance of only $200,000,000.

Table V.—Reconstruction Finance Corporation Collateral Loan to United Kingdom [1]

[In millions of dollars]

Collateral:	
Approximate value of collateral (Oct. 28, 1947)	900. 0
Approximate average annual income from collateral	37. 0
Loan:	
Authorized	425. 0
Disbursed	390. 0
Less repaid	213. 7
Balance outstanding (Dec. 31, 1947)	176. 3

Terms: Dated July 21, 1941. Due serially to July 1, 1956. Interest rate, 3 percent.

[1] See footnote 1 to table I.

The value of collateral pledged so greatly exceeds the remaining balance of the loan that it would appear this loan could be refinanced, the amount of the loan substantially increased, and additional dollar resources thus made available to the United Kingdom. The average annual income of $37,000,000 from the above collateral would cover interest and principal payments necessary to service a $700,000,000 loan at 3¼ percent interest, due serially in annual payments over 30 years. These terms are similar to the International Bank loan to France of $250,000,000 on May 9, 1947. This loan bears interest at 3¼ percent and is due serially to May 1, 1977.

TABLE VI.—LONG-TERM INVESTMENTS IN THE UNITED STATES OF THE CEEC COUNTRIES[1]

The following table showing long-term investments in the United States as of June 30, 1947, of the 16 Paris-conference countries has been prepared from information made available to the Senate Finance Committee by the National Advisory Council. It should be remembered that the investments vary widely as to availability and liquidity:

[In millions of dollars]

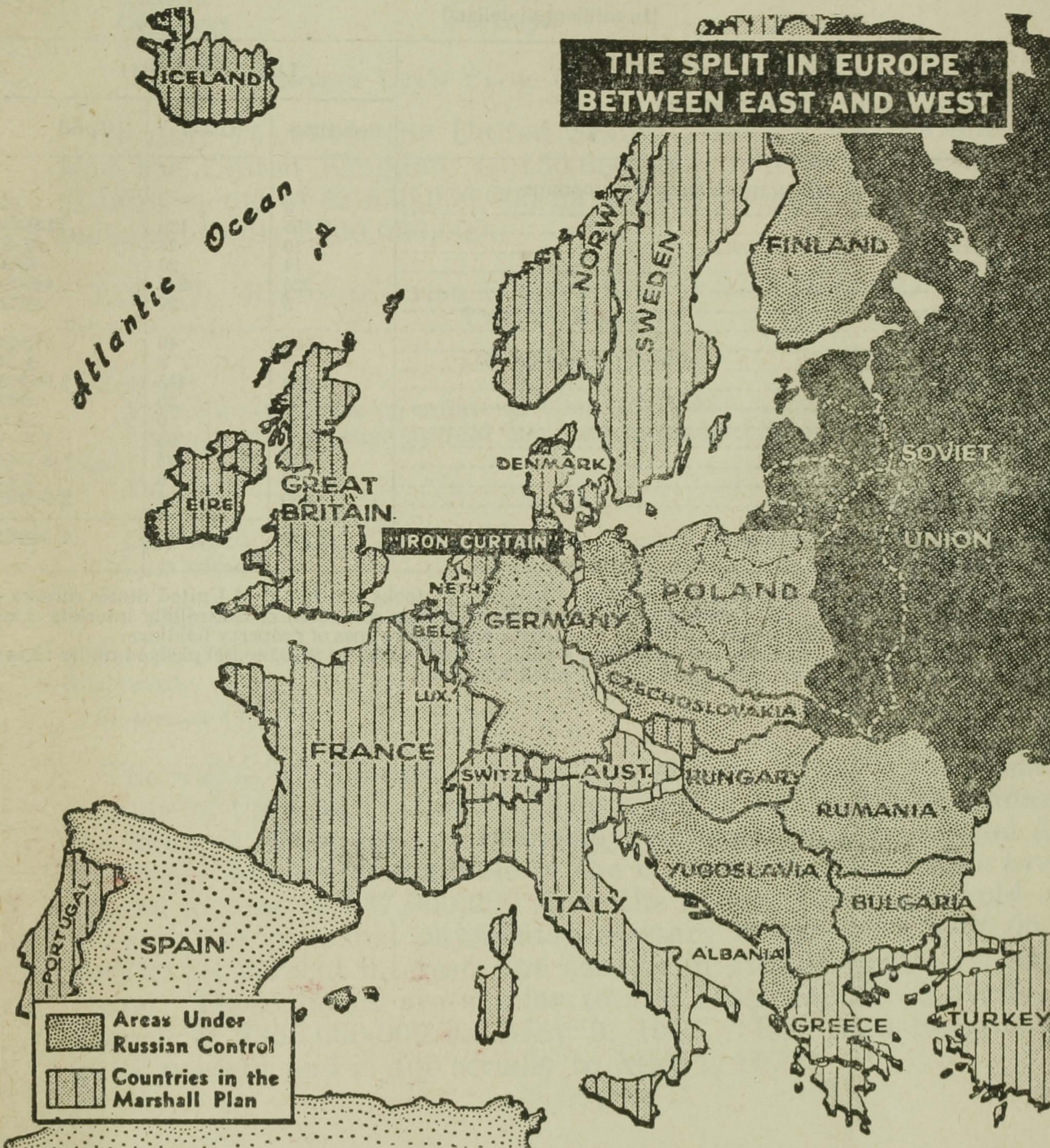
Country or area	Long-term assets[1]		
	Securities	Other	Total
Countries participating in European recovery program:			
Austria	3	3	6
Belgium	55	130	185
Denmark	10	24	34
Eire	14	26	40
France	225	240	465
Greece	5	27	32
Iceland			
Italy	14	49	63
Luxemburg	5	8	13
Netherlands	580	415	995
Norway	20	30	50
Portugal	12	9	21
Sweden	50	65	115
Switzerland	645	225	870
Turkey	10	6	16
United Kingdom[2]	600	1,425	2,025
Total, participating countries	2,248	2,682	4,930

[1] Long-term assets: Securities item is composed of holdings of stocks and bonds of United States corporations and bonds of the U. S. Government. The "other" item is composed of controlling interests in United States corporations, interests in estates and trusts, and other types of property holdings.
[2] United Kingdom total includes collateral with a value of approximately $900,000,000 pledged under the Reconstruction Finance Corporation loan to the United Kingdom.

[1] See footnote 1 to table I.

73259—48——6

Appendix III



—From New York Times.

:ts
2)
a-

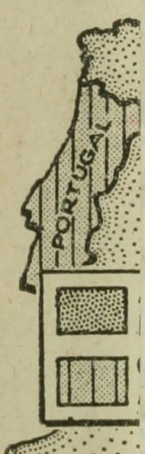
re
he
:o-
ue
ce,
he
m-
id
id-
a
an
Ac-
er-
The
ty,
ill-
un-
ner
eir

ing
ies,
itle
nen
ar-
ied
eat

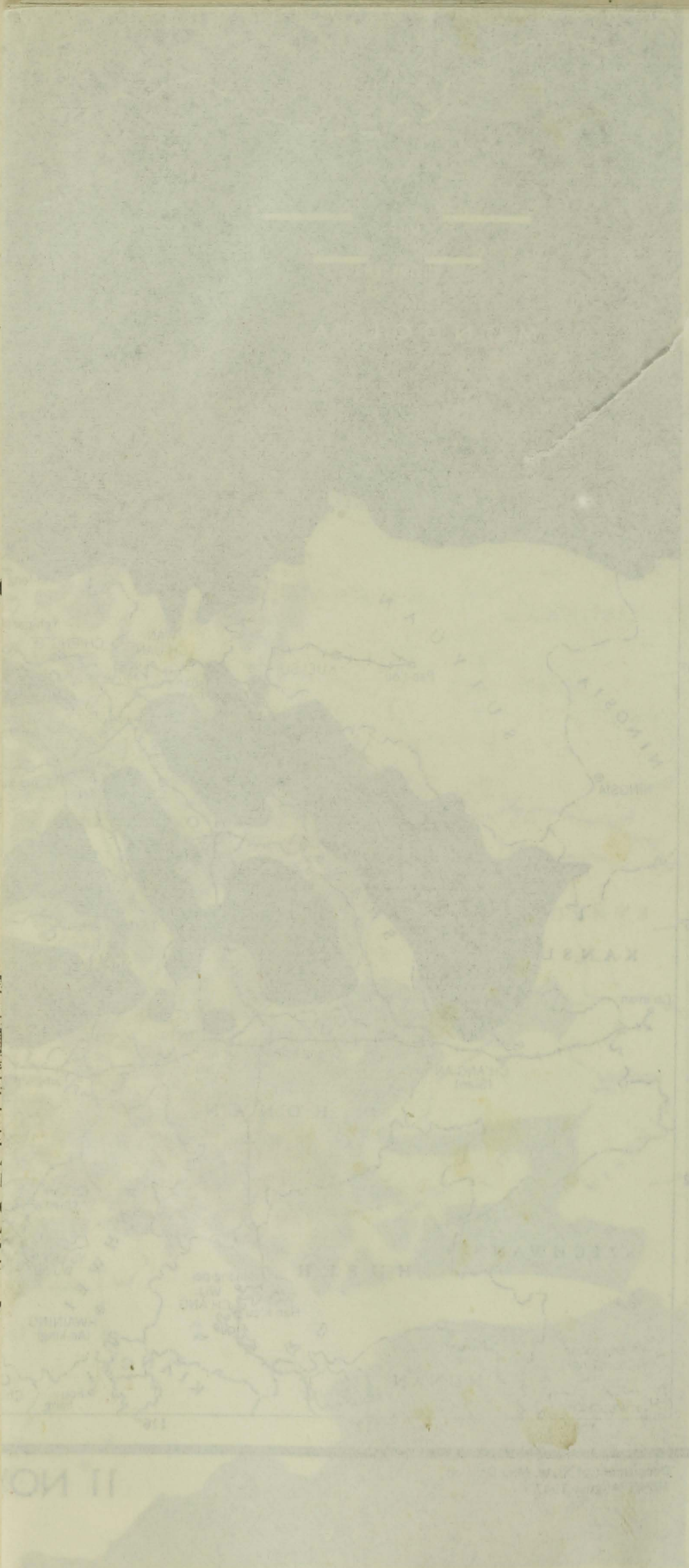
ake
ope
ges

the

sed
ort
try



7



Appendix IV

Section-by-Section Analysis of the Foreign Assistance Act of 1948

The enacting clause contains a short title of the entire act.

Section 101: The short title emphasizes two fundamental aspects of title 1: (1) That the assistance is economic in character; and (2) that the success of the European recovery program requires cooperation among the countries participating in the program.

Section 102 (a) : The committee recognizes that the general welfare and national interest of the United States are intimately related to the existence of a healthy Europe. Section 102 (a) emphasizes that economic conditions and relationships in Europe have and will continue to have an important effect upon the establishment of a lasting peace, the general welfare and national interests of the United States, and the attainment of the objectives of the United Nations. Although the committee believes that assistance in the economic field will effectively aid the European countries to sustain and strengthen principles of individual liberty, free institutions, and genuine independence essential to a peaceful and prosperous world, the great objectives of the European recovery program cannot be achieved solely by economic measures. Accordingly, the committee has changed the Senate bill by adding reference to political conditions and relationships to this subsection. The survival of the kind of world in which democracy, individual liberty, and peace can be maintained also depends in large part upon the willingness and ability of the peoples of the participating European countries to recognize and emphasize their areas of common interest, rather than their points of difference and separation, and to concentrate their efforts upon devising means for closer cooperation.

Having in mind that economic cooperation among the participating countries is dependent upon the political realities in those countries, the committee sought to state the purposes and objectives of this title in a manner sufficiently broad to enable the Administrator, when determining the form and measure of assistance to be given a participating country, to take into consideration the many and varied factors which will bear upon the ultimate success of this great undertaking.

The reference to a "plan for European recovery" is designed to make clear that the recovery program undertaken by countries of Europe must be a developing, not a static, program. Minor drafting changes have been made to strengthen the language of S. 2202.

Section 102 (b) : The stated purpose of this title is to effectuate the policy set forth in section 102 (a).

Section 103: The term "participating countries," which is used throughout this title, means any country (*a*) which signed the report of the Committee on Economic Cooperation or (*b*) any other country wholly or partly in Europe, provided, in both instances, that such country becomes a participant in a joint program for European recovery and only for so long as it remains an adherent to such a program. Certain of the participating countries which do not require assistance will, nevertheless, participate in the program for the purpose of cooperating with the other countries in carrying out the mutual effort which is inherent in the program.

The term "dependent areas under its administration" is intended to refer to all colonies and dependencies of a participating country and to trust territories administered by a participating country under the international trusteeship system of the United Nations. Action under this title in respect of all such areas would have to be consistent with the principles set forth in article 73 of the Charter of the United Nations and, as regards trust territories, consistent also with the terms of the relevant trusteeship agreement.

The term "participating country" also includes any areas under international administration or control. Hence, an area such as the Free Territory of Trieste will be eligible to participate (subject to the provisions of the title) when the Governor takes office pursuant to agreement of the United Nations. The section also makes it possible for any of the zones of occupation of Germany or of the Free Territory of Trieste to become a participating country, if any such zones qualify under the provisions of this title.

Section 103 (b) : Since Trieste was not in a position to be invited to the Paris Conference, it was not able to sign the report of the Committee on European Economic Cooperation. Therefore, Trieste is not in a position to receive assistance as a participating country. Accordingly, the committee, in this subsection, has provided for the Free Territory of Trieste or either of its zones to receive assistance under the Foreign Aid Act of 1947 up to June 30, 1949. Since there is still unappropriated under that act more than $20,000,000 of the authorized amount, the committee has also provided for an advance by the Reconstruction Finance Corporation of $20,000,000 to be used for providing assistance under the Foreign Aid Act of 1947 and for reimbursement to the RFC out of funds appropriated under that act. The committee has amended the Foreign Aid Act of 1947 in order to perfect its provisions with respect to assistance for Trieste.

Section 104 (a) : The Administrator, to be appointed by the President, by and with the advice and consent of the Senate, will have a status which will put him on a footing of equality with the heads of other agencies and departments of the Government, and he will have the right of direct access to the President, under whose control he will perform his functions.

Section 104 (b) : The Deputy Administrator for Economic Cooperation is authorized to perform any functions delegated to him by the Administrator, or, in the event of a vacancy in the office of the Administrator, he will be Acting Administrator.

Section 104 (c) : The intention of this subsection is to assure commencement of operations under this title as soon as possible after its passage, even though it may not have been possible for the first Administrator or Deputy Administrator to take office. The President is authorized, in such event and for a period of not more than 30 days after the date of enactment of the act, to provide for the performance of the functions of the Administrator through such agencies of the Government as he may determine. However, if the President nominates an Administrator or Deputy Administrator during such 30-day period, the authority of the President to provide for the performance of the Administrator's functions through other agencies of the Government will continue until the Administrator or Deputy Administrator takes office.

Section 104 (d): While the committee considered the desirability of establishing a corporation to administer the provisions of the economic-assistance programs under this act, it determined that it would be preferable to provide for a regular administrative agency with a single head responsible directly to the President. After careful investigation, the committee concluded that all the flexibility claimed for the corporate structure could be equally well secured by appropriate legislative provisions for an executive agency. However, in order to provide the Administrator with maximum flexibility, the committee amended S. 2202 by authorizing the Administrator, with the approval of the President, to create a corporation through which he could act in carrying out his responsibilities. In providing for such authorization the committee has specifically made it subject to the Government Corporation Control Act and has further required that appropriate notification be given to the Congress and the public when such corporation is created.

Section 104 (e): This section authorizes the Administration, or any other department, agency, or establishment of the Government performing functions under this title, to employ personnel for duty within the continental limits of the United States. Employment of personnel for service in the District of Columbia and elsewhere in the United States under this authority is not subject to the personnel ceilings imposed by section 14 (a) of the Federal Employees Pay Act of 1946. The Administrator is given authority to compensate not more than 60 of the persons performing duties within the United States without regard to the provisions of the Classification Act of 1923. This gives to the Administrator greater flexibility in selecting persons for particular types of employment without meeting the technical requirements of civil-service classifications. There is no exemption from the civil-service laws contained in this title, because the committee was convinced that such an exemption would not provide any necessary additional flexibility, but, on the other hand, might have an undesirable effect in depriving some of the persons employed by the Administration of the benefits of the civil-service laws. It is understood that those provisions of the civil-service laws which might hamper the Administrator in the administration of this title can be waived by the Civil Service Commission or by the President. The Civil Service Commission in an exchange of letters with the Department of State has agreed to grant exemptions on the widest basis necessary to permit effective operation. The authority to compensate not more than 10 of these persons up to $15,000 per year will enable the Administrator to attract individuals whose services are needed for an efficient, business-type administration, and who might not otherwise be available. In addition, this section authorizes the employment by the Administration of experts and consultants or organizations of experts or consultants, such as engineering and accounting firms, and individuals so employed may be compensated at rates up to $50 per day. The number of experts and consultants who may be compensated up to the amount specified in this section is not limited. Payments to organizations employed by the Administration under this section may be made at such rates and in such manner as the Administrator may authorize in contracts with such organizations.

Section 104 (f) : This section, which authorizes the Administrator to promulgate necessary rules and regulations and to delegate authority to his subordinates to perform his functions under this title, is consistent with standard administrative procedures. The section is not intended to permit the delegation of rule-making power to subordinates. The committee eliminated any reference in this subsection to heads of other departments, agencies, or establishments of the Government performing functions under this title as contained in the Senate bill. This omission was made because the committee concluded that with respect to the authority to issue regulations respecting their functions under this act, and to delegate any of such functions, the head of any existing department, agency, or establishment already possesses the necessary authority and power.

Section 105 (a) : This subsection enumerates certain functions to be performed by the Administrator. The authority of the Administrator to formulate programs of United States assistance under this title includes authority to approve specific projects which may be proposed to him by a participating country, to be undertaken by such country in substantial part with assistance furnished under this title. This authority is designed to implement the undertaking provided for in section 115 (b) (1).

The authority reposed in the Administrator to provide for the efficient execution of programs refers to the effective performance on the part of agencies of the United States Government with respect to services rendered by such agencies, under approved programs, in procurement, storage, transportation, or other handling necessary to insure the transfer of commodities in conformity with the programs.

The authority to terminate provision of assistance or take other remedial action, as provided in section 118, relates to the responsibility of the Administrator to take appropriate action to assure that assistance under this title is provided only in accordance with its provisions and its stated purposes. Inasmuch as the termination of the provision of assistance undoubtedly would have serious implications with respect to the foreign-policy objectives of the United States, it is not contemplated that such action would be taken without consultation with the Secretary of State, as provided in subsection (b) of section 105. Moreover, in certain circumstances, certain action by the Administrator, or by other agencies of the Government, might be more appropriate than termination of the provision of assistance. Accordingly, under this subsection, and under section 118, the Administrator may provide for, or recommend to the President or to the appropriate agency of the Government, the taking of such other action.

Section 105 (b) : This subsection prescribes arrangements under which the Administrator and the Secretary of State will concert their respective activities so as to strengthen and make more effective the conduct of the foreign relations of the United States.

The committee has added an additional paragraph to this subsection in order to clarify the fact that both the Administrator and the Secretary of State may refer matters of conflict within their respective fields to the President.

Section 105 (c): This subsection provides for similar relationship between the Administrator and the agency which administers the allocation and export-control authority, now the Department of Commerce. This appeared desirable in order to protect the Administrator, in view of the importance of the allocation powers and export-control authority to this program, without jeopardizing the interests of the domestic economy and of areas of the world not covered in this title.

Section 106: In view of the important aspects of foreign financial exchange and monetary transactions which will be involved in the development of policies under this title, the Administrator is made a member of the National Advisory Council on International Monetary and Financial Problems during the existence of the Administration.

Section 107 (a): This subsection creates a Public Advisory Board, to advise and consult with the Administrator with respect to general or basic policy matters arising in connection with the Administrator's discharge of his responsibilities. The creation of such a board is desirable both from the standpoint of making available to the Administrator the benefit of the advice and experience of private citizens representing broad public interests and also from the standpoint of assuring the fullest practicable degree of public information concerning the programs and operations under this title. The committee amended S. 2202 to provide specifically that the members of the Board shall represent business, labor, agriculture, and the professions as well as other matters affecting the public interest. Members of the Board are to be appointed by the President, by and with the advice and consent of the Senate, and provision is made for them to be compensated adequately. In order to assure the Board full opportunity to discharge its proper responsibilities, this subsection requires that the Board meet at least once a month, or more frequently upon call of the Administrator or of three or more members.

Section 107 (b): Any advisory committees appointed by the Administrator under this subsection may receive compensation in accordance with the provisions of section 104 (e) relating to experts and consultants employed by the Administration.

Sec. 108: The United States representative in Europe provided for by this section will play a key role in the accomplishment of the purposes of this title. He will be the principal United States representative in Europe concerned with the cooperative aspects of the title and he shall be the representative of the Administrator as well as the chief representative of the United States Government to the continuing organization set up by the participating countries. He will receive his instructions from the Administrator, which shall be prepared and transmitted to him in such a manner as to assure the necessary effective coordination between the Administrator and the Secretary of State. The United States Special Representative shall also coordinate the activities of the chiefs of the special missions provided for in section 109 and shall also discharge such additional responsibilities as may be assigned to him with the approval of the President. In order to assure that the Congress as well as the Secretary of State, the chiefs of the United States diplomatic missions, and the chiefs of the special missions are kept informed of his activities, the committee has amended S. 2202 to provide that the special representative shall also currently inform the chairmen of the Senate Foreign Relations Committee, the House Foreign Affairs Committee, the Senate Appropriations Committee, and the House Appropriations Committee of his activities. This amendment is particularly important to carry out the intent of the committee to exercise its functions as provided in the Legislative Reorganization Act of 1947. The President is authorized to designate the Special Representative as the United States representative on the Economic Commission for Europe. It should be noted that these provisions are not intended to alter in any way the historic relationship between a United States ambassador and the President.

Section 109 (a) : In order to assure the proper performance within each of the participating countries of operations under this title, this subsection provides for the creation of a special mission for economic cooperation within each such country under the direction of a chief who is to be appointed by the Administrator, receive his instructions from the Administrator, and report to him on the performance of his assigned duties. An exception is provided concerning the zones of occupation of Germany and of the Free Territory of Trieste, as is discussed more fully below in connection with subsection (d). The chief of the diplomatic mission referred to in this subsection is used to mean the ambassador, minister, or chargé d'affaires ad interim, as the case may be, in charge of the United States diplomatic mission.

Section 109 (b) : This subsection assures proper coordination between the chief of the special mission and the chief of the United States diplomatic mission. In the event of disagreements between them concerning the relations of operations of the special mission to the foreign policy objectives of the United States, which are not adjusted by consultation, the matter at issue will be referred to the Secretary of State and to the Administrator for decision. In the event of disagreement between the Secretary of State and the Administrator, the matter would be referred to the President for final decision in accordance with section 105 (b).

Section 109 (c) : In order to assure that the special United States representative in Europe and his staff, as well as the special mission in each participating country, will receive office space, facilities, and other administrative services, the Secretary of State and the Administrator are authorized to make appropriate agreements to this end.

Section 109 (d) : The committee gave considerable attention to the special administrative problems presented by the fact that, unlike the situation in other participating countries, the only government in the zones of occupation of Germany is a military government which, in the case of the United States zone, is an arm of the United States. Military government in the occupied zone is responsible for the accomplishment of the objectives of the occupation, including economic, political, and administrative arrangements essential to that end.

The problem was to assure that the Administrator would be in a position to discharge his responsibilities under this title, while at the same time assuring that the highly complex and vital administration of the occupied areas is clearly fixed in a military governor, whether he be a commanding general or a civil commissioner. The key importance of Germany to the success of the European recovery program involves a concentrated and energetic effort with respect to every aspect of the economic life of the area, including production, distribution, exports, imports, and manpower, as well as all the financial aspects of a complex modern economy. The responsibilities of the military governor therefore include, but are not limited to, operations under this title. The Administrator will, of course, have full authority to perform, with respect to the occupied areas, as in the case of any other participating country, all functions vested in him by section 111 (a). However, in the light of the special problems discussed above, the committee concluded that administrative arrangements within the occupied area for the conduct of operations under this title should be left to the President. It is the intention of this subsection that the administrative arrangements to be made by the President will be such as to assure full coordination between the Administrator and the occupation authorities in order that the Administrator may carry out his responsibilities without impairment of the responsibility of the military government for the successful accomplishment of all of the objectives of the occupation. Similar considerations apply with respect to the zones of the Free Territory of Trieste, if either of the zones of the Free Territory of Trieste becomes a "participating country" as defined in section 103 (a).

Section 110 (a): Two alternative procedures are made available to the Administrator for the employment of personnel for the purpose of performing functions under this title outside the continental limits of the United States. Under the first of the procedures, such personnel will be outside the Foreign Service system but will receive compensation, allowances, and benefits comparable to those provided for Foreign Service reserve and Foreign Service staff officers and employees.

Under the second procedure, the Administrator may recommend to the Secretary of State persons to be appointed or assigned as Foreign Service reserve officers or as Foreign Service staff officers and employees for the purpose of performing operations under the title outside the continental limits of the United States. Foreign Service staff officers and employees appointed from other Government agencies pursuant to this procedure may be given the same reemployment rights as are provided for Foreign Service reserve officers by section 258 of the Foreign Service Act of 1946. The assignment to a post abroad or the transfer from one post abroad to another and the promotion of persons appointed to the Foregin Service reserve or staff under this section are to be made by the Secretary upon the recommendation of the Administrator.

It should be made clear that it is not contemplated that the two procedures outlined above are to be mutually exclusive. It is left to the judgment of the Administrator with respect to each appointment, whether such appointment should be within or outside the Foreign Service system. Under existing legislation there is nothing to prevent the Secretary of State, at the request of the Administrator, from assigning officers in the Foreign Service system to perform functions under this title. In such event such officers could be paid out of funds made available in accordance with section 114 (d) of this bill.

Section 110 (b): In order to assist the Administrator in the performance of the functions under this title outside the continental limits of the United States, this subsection provides that the Administrator may request the Secretary of State to appoint alien clerks and employees in accordance with the applicable provisions of the Foreign Service Act of 1946 and through the existing facilities of the Department of State.

Section 110 (c): This subsection provides for investigation and report by the Federal Bureau of Investigation of citizens or residents of the United States who are employed or appointed for the performance of functions under this title for service outside the continental limits of the United States. The committee amended S. 2202 to provide that persons not presently employed in the Government at the time of their appointment cannot assume their duties until the Federal Bureau of Investigation has submitted its report on the investigation of such persons. The committee believed that it was important that persons not already employed in the Government should not assume their responsibilities until the Federal Bureau of Investigation made such a report. The committee assumed that the Federal Bureau of Investigation would be able to make such investigations and reports promptly and without hindering the execution of the program. Persons employed in the Government may temporarily be assigned to duties under this title after preliminary investigation during a period of 6 months from the date of enactment of this act. This subsection does not apply to any officer appointed by the President by and with the advice and consent of the Senate.

Section 111: This section prescribes the forms and procedures by which the Administrator may provide assistance to a participating country, and the methods of furnishing such assistance. Under the authority of this section, and with the funds authorized under section 114, the Administrator will be able to launch immediately into operations which will relieve the drain on the dollar assets of the participating countries. These assets are now being drained at a rate which will, shortly after April 1, leave several participating countries without any dollar assets available, as a practical matter, for purchasing essential commodities in dollar areas. These countries, however, will then have under contract or on hand in the United States a substantial quantity of commodities for delivery in the ensuing months. These undelivered commodities comprise the "pipe line" of supply to the countries concerned. Those commodities in the "pipe line" which are eligible for provision under this title may be financed by the Administrator out of funds made available under the bill as part of the assistance to be provided thereunder. As in the case of the Foreign Aid Act of 1947, under which the same type of operation was authorized, the "pipe line" at any moment will embrace commodities, the title to which has not been relinquished by the consignor, or which have not theretofore been landed in the territory of the participating country concerned. The language of the present title will permit the Administrator to arrange for this important aspect of assistance.

Section 111 (a): This subsection authorizes the Administrator to furnish assistance to any participating country, in the forms prescribed. He may provide for procurement of any commodity which he determines to be required for the furtherance of the purposes of the title. The authority to procure "from any source" provided in paragraph 1 includes the authority to procure "offshore", that is, from outside the territory of the United States. Offshore procurement of commodities and services required by the participating countries will serve a variety of purposes. It will permit the procurement outside of the United States of commodities in short supply in the United States, thereby relieving shortages in this country, and it will also reduce the inflationary effect of increased demands for certain commodities from United States sources. Furthermore, in some cases the needs of the participating countries for particular types of commodities and services can best be met from sources outside the United States. While offshore procurement of commodities will be effected principally from Western Hemisphere sources, incidents may arise in which the Administrator will find it desirable to finance the procurement for one participating country of commodities which are available in another such country. This will make possible increased trade among the participating countries and will make available dollar exchange to the exporting country, thereby diminishing its requirements for direct assistance from the United States. Offshore procurement of commodities will, it is expected, be effected to a very large extent, through normal channels of trade. Offshore procurement will always be subject to controls established by the Administrator designed to assure that such procurement is in furtherance of the purpose of this title.

The committee amended S. 2202 by providing that where procurement is from surplus Government stocks the Administration will be placed on the same priority basis as other Government agencies in the procurement of surpluses for their own use.

The term "commodities" is broadly defined. The committee has amended S. 2202 to include merchant vessels in the definition and under paragraph 4 of this subsection to provide for the charter of 200 dry-cargo vessels. The committee felt that to prohibit the temporary transfer of laid-up American merchant ships for a limited period of time would be uneconomic and contrary to the best interests of the American people. The committee, however, inserted provisions assuring that the vessels will be returned to the United States whenever such return is in the interests of national security or when assistance to the country involved under this title is terminated. Furthermore, the committee provided that these vessels shall be utilized primarily for the transportation of commodities supplied under this title and shall not unnecessarily compete with vessels of United States operators.

The Senate bill provided that the Administrator shall take such steps as may be necessary to assure, "so far as is practicable" that at least 50 percent of the gross tonnage of commodities procured within the United States out of funds made available under this title are transported on United States-flag vessels to the extent such vessels are available at market rates. The committee amended this provision in two ways: (1) It substituted for the phrase "at least 50 percent" the phrase "a substantial portion." This change was designed to assure the Administrator greater flexibility in the application of this provision; (2) it placed before the words "ocean vessels," the words "dry cargo." This was done so that this provision would not aggravate the petroleum shortages in various parts of this country due to the tanker shortage. At the present time not more than 20 percent of petroleum exports from the United States are carried in United States tankers and prior to the war no American tankers participated in that trade.

The Administrator is authorized to furnish technical information or technical personnel for instruction purposes to a participating country, as well as other forms of technical information and assistance.

The provision authorizing transfer of any commodity or service is intended to authorize the actual delivery of a commodity into the custody of a participating country, or the rendering of a service for such country. These acts represent the actual rendering of the assistance authorized under the program. By defining transfer as the act of delivery or of rendering a service, a standard is established for assuring the amount of assistance actually provided for a participating country. This measure is important in connection with fiscal operations and in the preparation of reports on operations under this title. The paragraph authorizes transfer not only to a participating country itself, but to any agency or organization representing such country. Under this authority, commodities, for example, could be delivered directly to business firms designated by the participating country as its agent to receive such commodities or to an organization representing a group of such countries.

Paragraph 6 merely makes clear that the Administrator may consider allocation of commodities or services on a project basis.

Section 111 (b) : This subsection prescribes the method under which the Administrator may provide the types of assistance authorized under section 111 (a).

Paragraph (1) of section 111 (b) authorizes the Administrator for the purpose of facilitating procurement, to establish accounts on the books of the Administration, or of any other department, agency, or establishment of the Government, or, on terms and conditions approved by the Secretary of the Treasury, in United States banking institutions (including overseas branches of United States banks). In addition to authorizing Government procurement through procedures specified herein, the paragraph will enable the Administrator to permit utilization of normal trade channels, with adequate safeguards to assure proper expenditure for approved purposes. The committee amended S. 2202 by making clear that, while Government procurement would be authorized, these provisions would facilitate and maximize the use of private channels of trade, subject to adequate safeguards to assure that expenditures in connection with such procurement are within approved programs and in accordance with the terms and conditions established by the Administrator.

Under subparagraph (i) a "letter of commitment" could, for example, be issued by the Administrator to participating countries, in order to facilitate their contracting with suppliers, or to suppliers or private banking institutions. The "letter of commitment" would embody a commitment on the part of the Administrator to make payment for the furnishing of specified commodities, upon presentation of the "letter of commitment," together with contracts, invoices, bills of lading, or other supporting documents enumerated therein sufficient to demonstrate that the funds are being properly spent for approved purposes. The utilization of this procedure, in effect, would enable a participating country to institute essential approved procurement without the necessity for borrowing, or immobilizing its scarce dollar reserves by furnishing an irrevocable letter of credit to a supplier. Such borrowing, or the furnishing of an irrevocable letter of credit, has frequently been required of foreign countries making contracts in the United States in order to relieve the supplier of credit risk. A "letter of commitment," which would bind the United States Government and would create an obligation against appropriations made under authority of the bill, would normally be used by a supplier in the place of an irrevocable letter of credit and on the same basis as a United States Government contract to purchase. The supplier could use the "letter of commitment" for his own credit arrangements in the same way as he could use a United States Government contract, and the right to receive payment under the "letter of commitment" would be assignable within the terms of the law relating to the assignment of claims.

Subparagraph (ii) of this subsection authorizes the Administrator to permit withdrawals, against an established account, by a participating country. The Administrator would specify the documents which must be submitted to effect withdrawals, in order to assure full compliance with the terms and conditions of the supply program. The committee amended subparagraph (ii) so as to provide that withdrawals would be under arrangements prescribed by the Administrator to assure the use of such withdrawals for purposes approved by him.

The foregoing procedures will permit the Administrator, acting within prudent limits, to authorize advances for the making of payments by or on behalf of participating countries, and to authorize reimbursement to such countries for payments already made by them for approved commodities. Such payment or reimbursement can be effected without requiring the submission of all documents which are ordinarily prerequisite to the expenditure of United States Government funds. This will make possible procurement in a businesslike manner, through normal channels of trade, subject to adequate safeguards established by the Administrator to demonstrate that all expenditures are within the approved program and in accordance with the terms and conditions established by the Administrator for such expenditures. The safeguards will enable him to make certain that amounts authorized to be withdrawn will not exceed the needs of participating countries to make current dollar payments for approved supply items. In addition, the Administrator will be in a position to assure that the timing and method of procurement is consistent with the best interests of the domestic economy of the United States. However, this subsection requires, with respect to procurement within the United States, the eventual submission of all standard documents necessary for auditing purposes. Experience has shown that, with respect to procurement outside the United States, particularly through normal trade channels, it is frequently impossible to obtain all the standard documentation required for auditing of accounts. Hence, the Administrator is authorized to prescribe the documents required in support of expenditures for offshore procurement.

Paragraph 2 of subsection (b) permits the utilization by the Administrator of any department, agency, or establishment of the Government in connection with provisions of assistance under this title. This authority includes procurement through regular Government agencies. Funds allocated to any such agency out of funds appropriated under authority of this title will be established in separate appropriation accounts in the Treasury. The paragraph also authorizes the provision of assistance by acting in cooperation with the United Nations, with other international organizations or with agencies of the participating countries.

Paragraph 3 authorizes the Administrator to make guaranties for the transfer into dollars of locul currency proceeds from projects abroad, under conditions and subject to the limitations contained in the paragraph. This provision is designed to afford American business enterprise the opportunity to participate in the recovery program by making new investments abroad, or by expanding existing facilities where the program calls for additional capital equipment. They may thus contribute to the restoration of Europe, while at the same time carrying out their own programs for expansion abroad. American concerns, prepared to assume business risks abroad, are understood to have been deterred from investing abroad in a large measure because of their lack of assurance that they would be able to transfer foreign currency earnings into dollars. It is this transfer risk which the guaranty is designed to obviate.

The approval of the Administrator will be expressed through the guaranty contract with the American investor. The approval power will not stop with the writing of the guaranty contract itself. Regulations will be promulgated by the Administrator to assure a follow-up to determine that the agreed amount of dollars have actually been invested, that the resulting investment is reasonably related to the recovery purposes for which the guaranty was extended, and that the local currency proceeds tendered for transfer into dollars are justifiably attributable to the guaranty investment. The term "investment" includes loan, as well as so-called equity, investments.

S. 2202 has been amended to make it clear that the Administrator is permitted to make guaranties of investments in enterprises producing or distributing informational media, such as newspapers, magazines, and movies of an informational nature. However, the Administrator may not make such guaranties in excess of $15,000,000 during the first year after the date of enactment of this act.

The committee also amended subparagraph (i) of paragraph 3 to make clear that when any payment is made to any person in fulfillment of a guaranty, the currencies or credits in currencies received by such person, but which could not be converted into dollars, would become the property of the United States Government. An additional amendment made by the committee provides that the Administrator may charge a fee in an amount not to exceed 1 percent per annum of the amount of each guaranty. All fees so collected are to be available for the discharge of any liability accruing under the guaranty provisions at such time as all such liabilities shall be discharged or have expired, or until all such fees have been expended in fulfillment of liabilities incurred under this provision. It is expected that in this way a part of the liabilities that may be incurred under this provision will be discharged out of these fees. The committee, in view of its amendment under paragraph 5 of this subsection and paragraph 2 of subsection (c) of this section, eliminated the provision of the Senate bill which limited the total liabilities assumed under such guaranties to 5 percent of the total funds appropriated for the purposes of this title.

The committee struck from S. 2202 the amendment dealing with guaranties to Western Hemisphere governments and to any persons in the Western Hemisphere. This provision was eliminated since it overlapped the guaranty provision discussed above, and it was believed that it would reduce the likelihood of unguaranteed loans or credits being made by Western Hemisphere countries. Furthermore the provision in the Senate bill provided for a more complicated procedure of providing for offshore procurement through private channels, without assuring adequate safeguards. Nor would it give any greater benefit to private trade channels than is already adequately provided for in other sections of this title.

The total amount of guaranties that can be made under section 111 (b) (3) is $500,000,000. In the discharge of liabilities under guaranties the fees collected would first be utilized and that thereafter funds realized through issuance of notes under a public-debt transaction as provided by the terms of section 111 (c) (2) would be utilized.

(c) (1): This subsection specifies the methods by which the Administrator may finance the provision of assistance for a participating country. In accordance with the standards prescribed in the subsection, the Administrator, in consultation with the National Advisory Council on International Monetary and Financial Problems, will determine whether assistance under any part of a program, with respect to a participating country, shall be on the basis of grants or of loans. The committee believes that the form of the assistance for financing imports into the participating countries should depend primarily upon two factors: (1) The character and purpose of the assistance; and (2) the capacity of the country concerned to make repayments without jeopardizing the accomplishments of the purposes of the bill.

In order to clarify the Senate bill, and to make clear that "fuzzy loans" should not be made, the committee made specific reference to the test of "reasonable assurance of repayment." Obviously, grants should not be made to countries which are found to have the capacity to pay cash or to repay loans without jeopardizing the purposes of the bill. It is equally clear that it would be unrealistic to require payment in cash or repayment of loans in the case of participating countries entitled to provision of assistance under this bill but which are found to be without capacity to repay without jeopardizing such purposes. Subject to the foregoing tests, it is the view of the committee that, to the fullest extent practicable, payments should be required, or loans should be used, in order to finance imports of capital equipment and of raw materials for use in connection with capital development; and grants should be used in order to finance imports of current supplies of food, fuel, and fertilizer and of raw materials not used for capital development.

The Administrator is authorized by this subsection to determine, in consultation with the National Advisory Council, the terms of payment to be required of participating countries for which the Administrator provides assistance on a loan basis. This subsection specifies that the terms of payment on account of assistance provided on a loan basis may, where appropriate, include payment by the transfer to the United States of materials required by the United States as a result of deficiency or potential deficiencies in its own resources and under such terms and in such quantities as may be agreed to between the Administrator and the participating country. Explicit reference to this subject was deemed desirable even though the Administrator would possess authority to take such action under the general language of this subsection because of the importance which the committee attached to this matter.

In determining whether assistance will be through grants or upon terms of payment, and in determining the terms of payment, the Administrator will act in consultation with the National Advisory Council on International Monetary and Financial Problems. The provision for consultation between the Administrator and the National Advisory Council in this subsection (as well as in subsection (2) of this section and paragraph (6) of section 15 (b)) contemplates that if, after such consultation, differences of view remain, the matter in disagreement will be referred to the President for final decision.

The committee amended paragraph 2 of section 111 (c) to provide that during the first year following the date of enactment of the act for the purpose of extending assistance on credit terms and for carrying out the guaranty provision under section 111 (b) (3), the Administration is authorized to finance such transactions by means of issuing notes as a public-debt transaction in an amount not exceeding in the aggregate $1,000,000,000. Accordingly, the Administrator is authorized to issue notes from time to time for purchase by the Secretary of the Treasury, which notes shall bear a rate of interest as may be determined by the Administrator with the approval of the Secretary of State. It is intended that notes will not be issued until the Administrator needs the money either for the purpose of rendering assistance on credit terms or for meeting liabilities under the guaranty provision. Notes will not be issued at the time the guaranty is made, but only when a liability arises during the first year. In the event that the guaranty must be honored at a later date after the 1-year period this title contemplates that authorization would be passed providing for the liquidation of such liabilities which might arise. In order to assure that the Administrator will not exceed the $5,300,000,000 total (4.3 billion by appropriation and 1 billion by public-debt transaction) provision is made in paragraph 5 of section 111 (b) that as guaranties are made the authority to realize funds from the sale of notes for loan purposes authorized under this paragraph shall be accordingly reduced.

When it is determined that it is appropriate to provide assistance to the participating country on a loan basis, the Administrator will allocate funds (realized from a public-debt transaction) for this purpose to the Export-Import Bank of Washington which will make and administer the credit on terms specified by the Administrator in consultation with the National Advisory Council. The elimination of the provision that the loan will be made and administered by the Export-Import Bank as directed by the Administrator is not intended to detract from the Administrator's authority as provided in the Senate bill.

Section 112 (a): This provision is designed to assure the protection of the domestic economy.

Section 112 (b): This subsection provides an added measure to assure the protection of the domestic economy by avoiding unnecessary drains upon petroleum and petroleum products of the United States.

Section 112 (c): In accordance with the general intention of the committee to protect the domestic economy of this country from shortages that might result from the program, and particularly in order to assure an adequate supply in the United States of byproducts resulting from the milling of wheat, this subsection requires that, in connection with aid in the form of grants, amounts of wheat and wheat flour to be transferred under this title shall be so determined that the total quantity of United States wheat used to produce wheat flour procured in this country for transfer to such countries under this act, shall not be less than 25 percent of the aggregate of the unprocessed wheat and wheat in the form of flour procured in the United States for transfer to such countries under this title. The committee perfected the Senate bill to clarify the above purposes.

Section 112 (d): The provisions of this subsection are designed to provide for the fullest practicable use of any agricultural commodity, or product thereof, produced in the United States and determined by the Secretary of Agriculture to be in excess of domestic requirements. Accordingly, the Administrator is directed to provide for the procurement of any such agricultural commodity where it is intended to transfer any such commodity on terms not requiring payment by the participating country, where the commodity is within the requirements of the participating country concerned, and the application of which will not hinder the Administrator, to give effect to the following:

(1) Not to authorize the procurement of such agricultural commodity outside the United States except where such commodity or the product thereof is to be procured in one participating country for transfer to another participating country if, in consultation with the Secretary of Agriculture, he determines that it would be in furtherance of the purposes of this title and would not result, in and of itself, in creating a burdensome surplus in the United States or causing serious harm to the ability of the American producer to market such commodities. Similarly, to the extent that such commodity is not available in the United States to meet the requirements of the participating countries under this title, offshore procurement is authorized.

(2) In providing for the procurement in the United States of such agricultural commodities for transfer by grant, the Administrator under this subsection is required to procure an amount of each class or type of such commodity in the approximate proportion that, as determined by the Secretary of Agriculture, such classes or types bear to the aggregate excess of such commodity over domestic requirements. The application of the provision, as the others, is generally qualified by the following conditions: (a) The agricultural commodities must be in surplus in the United States as determined by the Secretary of Agriculture; (b) the class or type must be within the requirements of the participating country for which the procurement is being provided; (c) the ap-

plication of this provision should not hinder the Administrator in the effective carrying out of the purposes of the title and the procurement of the proposed amount of each class or type must be administratively practicable.

Section 112 (e): Subsection (e) is intended to help prevent the undue accumulation of surplus foods in the United States. It provides that any surplus agricultural commodities acquired by the Commodity Credit Corporation under price-support programs shall be utilized for foreign-aid programs to the maximum extent practicable without jeopardizing the accomplishment of the purposes of the programs. The sales prices at which such commodities are to be made available for foreign-aid programs are to be sufficient to reimburse fully the Commodity Credit Corporation, but are not to be higher than the domestic market prices for such commodities as determined by the Secretary of Agriculture. The sales prices, as defined above, serve as the basis for determining the amounts of reimbursement to the Commodity Credit Corporation. That organization can obtain its reimbursement from two sources: (*a*) The prices paid by the Administrator (or administrators of other foreign-aid programs) for such commodities which are procured and (*b*) the funds made available under subsection (f), provided that funds from that source shall not exceed 50 percent of the respective sales prices for such commodities. In this manner, the Administrator will obligate and expend funds made available under the European recovery program only to the extent of the net cost of such commodities to the Administrator. Under the provisions of subsection (e), the Secretary of Agriculture will be in a position to aid in financing to the maximum practicable extent the utilization in connection with foreign-aid programs of price-support commodities which are determined to be in surplus supply.

Section 112 (f): This section authorizes the utilization of funds, appropriated under section 32 of the amendment to the Agricultural Adjustment Act contained in Public Law 320, Seventy-fourth Congress, in payment for surplus agricultural commodities made available under relief or assistance programs for foreign countries. Not more than 50 percent of the price at which such commodities are sold for such programs may be paid out of these funds. In further implementation of this authorization, the funds available under section 32 which were rescinded by the act of July 30, 1947, are restored by section 112 (f) for use during the fiscal year ending June 30, 1948.

Section 112 (g): The purpose of this subsection is to grant priority to the participating countries, as against countries not in the European recovery program, in the allocation of scarce commodities, unless the national interest of the United States, as determined by the Secretary of Commerce, requires otherwise.

Section 112 (h): The Administrator under this subsection is directed to the maximum extent possible consistent with the accomplishment of the purposes of this title to utilize private channels of trade.

Section 113 (a): From time to time assistance to the participating countries will take the form of commodities that are normally procured by United States Government departments, agencies, and establishments for their own purposes. Similarly, assistance will sometimes be provided in the form of services that can readily be rendered by such departments, agencies, or establishments. Whenever such commodities, services, or facilities are made available to participating countries, the departments, agencies, or establishments from which such commodities, services, or facilities are obtained will be reimbursed out of funds appropriated under this title. Section 113 (a) prescribes the procedures under which such reimbursement will be effected.

Section 113 (b) : Cases will arise in the course of operations under this title when commodities procured under a program of assistance to the participating countries (1) can fill some more urgent need of the United States Government; (2) are determined no longer to be appropriate for transfer under the original program; or (3) are in danger of spoilage or wastage, or must be disposed of in order to conserve their usefulness. In such cases, under this subsection, the Administrator may dispose of such commodities in the best interests of the Government of the United States, in accordance with the procedures set forth in this subsection.

Section 114 (a) : In authorizing an advance from the Reconstruction Finance Corporation this subsection provides a procedure, standard in laws of this character, to permit immediate start of operations once the authorizing legislation is enacted. In view of the urgent need of making assistance available to the participating countries and to keep the pipe lines flowing, the committee finds that the sum of $1,000,000,000 is essential for that purpose pending consideration and enactment of an appropriation act.

Section 114 (b) : This section is a precautionary measure in order to assure that any unused balances of funds under the Foreign Aid Act of 1947 shall be available for carrying out the purposes of this title.

Section 114 (c) : This subsection contains the authorization for appropriations. The introductory language, referring to those participating countries which adhere to the purposes of the title and remain eligible to receive assistance thereunder, merely restates and reflects the conditions precedent to the receipt of assistance which are set forth in other provisions of the title. The language is not intended to impose a new condition, and the tests for eligibility are provided elsewhere in the title, as well as the methods of determining eligibility. The committee determined that it would be inadvisable to authorize appropriations after the end of the first 12 months. The committee believes that while the Congress should express the intention to carry out a 4¼-year program, each year the Congress should review both the authorization as well as the amount of the appropriation in determining the provision of assistance for the succeeding 12 months. This will enable not only a review of the amounts it has expended during the preceding 12 months but also the basic foreign policies inherent in the program. While there is no commitment expressed or implied to provide any specific assistance to any participating country, there is a congressional intention of continuing the program for the 4¼-year period for those countries which remain eligible to receive assistance. The amount authorized to be appropriated for carrying out the purposes of this title during the first 12 months has been changed to $4,300,000,000 in view of the authorization to the Administrator to obtain $1,000,000,000 through the issuance of notes as a public debt transaction.

Section 114 (d): This subsection gives general authority to use the funds made available under this title for all the various incidental expenses that will be found essential to effective operations. It specifically authorizes the use of such funds for administrative expenses and compensation of various classes of personnel and permits the disregard of certain laws that would unduly hamper the type of operations that will be necessary in an unusual program of this type. In addition, under the authority of this section, the Administrator will be able to meet various types of emergency expenses incident to providing for assistance for the participating countries.

Section 114 (e): This subsection authorizes the merger of local currency deposits made under the Relief Assistance Act and the Foreign Aid Act of 1947 with similar local currency deposits to be made under this title. Such local currency deposits if so merged, would then be held for use in accordance with the terms and conditions specified in paragraph 6 of subsection 115 (b) of this title. This section, when enacted into law, will provide the congressional approval required by the Relief Assistance Act and the Foreign Aid Act of 1947 for the deposit of the unexpended balances remaining in the local currency accounts established under such act. Thus uniformity in the ultimate disposition of all these balances will be assured in accordance with the policies established in this title.

Section 114 (f): This subsection establishes a foreign economic trust fund consisting of $3,000,000,000 of the funds appropriated for the first 12 months of operations under this title, and requires that expenditures made for carrying out this title in the fiscal year beginning July 1, 1948, will first be met out of the Trust Fund. When the $3,000,000,000 placed in the Trust Fund has been exhausted by these expenditures, future expenditures will be made out of appropriation accounts in the customary manner. From the point of view of the Administrator's operations under this title, the Trust Fund will be utilized in exactly the same manner as ordinary appropriation accounts. The only difference which will result from the creation of a Trust Fund is the recording of the expenditure of the $3,000,000,000 as part of the budgetary expenditures of the fiscal year ending June 30, 1948.

Section 115: This section is designed to assure that (*a*) in accordance with the declaration of policy in section 102, continuity of assistance provided under this title will be dependent upon continuity of cooperation among countries participating in the program, and (*b*) as a condition precedent to receiving such assistance, each participating country shall make an executive agreement with the United States embodying undertakings essential to the accomplishment of the purposes of this title.

Section 115 (a): This section contains the basic authorization to the Secretary of State to conclude executive agreements in furtherance of the purposes of this title. Such agreements may be concluded, howver, only after consultation with the Administrator. The Secretary of State may, nevertheless, negotiate and conclude preliminary or temporary agreements, before an Administrator or Deputy Administrator has qualified, to the extent that he may deem such agreements to be necessary in furtherance of the purposes of this title.

Section 115 (b): The requirement for continuity of cooperation is expressed in subsection (b), which envisages multilateral reciprocal pledges given by the participating countries among themselves, to use all their efforts to accomplish a joint recovery program based upon self-help and mutual cooperation, and including the establishment of a continuing organization for that purpose.

In addition to the multilateral reciprocal pledges to be given among themselves, each participating country will be required to conclude an executive agreement with the United States providing for the adherence of such country to the purposes of this title. Inasmuch as the purpose of this title, as stated in section 102 (b), is to effectuate the policy set forth in section 102 (a) of this title, this portion of the bilateral agreement will, in effect, constitute an undertaking by each participating country to adhere to the policies of this title governing the objectives in Europe of the program. In addition, section (b) enumerates certain provisions which will, where applicable, be embodied in the bilateral agreement between each participating country and the United States.

The first of these provisions embodies an undertaking by the country concerned to promote industrial and agricultural production in order to enable such country to become independent of extraordinary outside economic assistance. It is designed to assure that each country will make all efforts to increase production to the end that it may, as soon as possible, cease to depend upon outside economic assistance for which it is unable to exchange goods or services, or make payments, on a sound financial or trade basis. This paragraph also makes clear that the Administrator has authority to approve specific projects which may be proposed by a participating country to be undertaken in substantial part with assistance provided under the title and which may be designed to further the purposes of this title.

Another undertaking, embodied in paragraph (2) of this subsection, provides for the application by each participating country of all necessary measures leading to the rapid achievement of internal financial, monetary and economic stability, including the achievement of budget balance as quickly as possible.

Paragraph (4) of this subsection contains a provision under which the participating country would agree not only to make use of, but also to take measures, to the extent practicable, to locate and control, in furtherance of the recovery program, assets and earnings therefrom which belong to the citizens of such country and which are situated within the United States, its Territories and possessions. The committee considers that the dollar assets of citizens of the countries receiving aid under the recovery program should be fully available in support of the program. The precise form of utilization will necessarily vary according to the circumstances of the particular country and the nature of the assets. The proposed provisions does not require that the assets be liquidated although it is believed that some of the countries will actually undertake liquidation programs with respect to assets which are susceptible of such treatment.

Paragraph (5) is assigned to make available to the United States in accordance with the terms of the paragraph, materials required by the United States as a result of deficiencies or potential deficiencies in its own resources. Agreements with participating countries for the transfer of such materials may extend beyond the period of this title and will specify the terms and quantities governing the transfer of such materials.

Section 115 (b) (6) provides for an undertaking on the part of each participating country to deposit in a special account the local currency equivalent of assistance furnished on a grant basis. Among the uses which could be made of these deposits, the committee has considered that in appropriate circumstances the following might be applied:

(*a*) Withholding from use, in whole or in part, to assist in measures of financial reform and currency stabilization;

(*b*) Use for retirement of national debt so as to promote the most rapid achievement of internal financial stability;

(*c*) Use for local currency costs incident to the exploration for and development of additional production of raw materials in probable long-term short supply in the United States;

(*d*) Use to defray the cost in the currency of the participating country pursuant to arrangements approved by the International Bank for Reconstruction and Development and by that country of projects mutually agreed by them as contributing to European economic recovery;

(*e*) Use for local currency administrative costs incident to the operation of ERP within the country concerned.

In addition, these deposits could be used for other purposes agreed to between each participating country and the Administrator, but any agreement for the disposal of any unencumbered balance remaining on June 30, 1952, will be subject to approval by the Congress.

The committee amended paragraph 6 of this subsection to provide that in addition to consulting with the National Advisory Council in reaching agreements with a participating country with respect to local currency deposits, the Administrator is also to consult with the Public Advisory Board. The purposes of such consultations are also further elaborated.

In addition to providing for reports to the United States by each participating country on operations under the agreement, paragraph (7) also assures that adequate publicity will be given within each participating country by the government of such country to United States assistance furnished under the bill.

The committee inserted an additional provision (par. 9) to be included in the bilateral agreements, if applicable, with respect to strategic materials. This provision reenforces those provisions already included in S. 2202 with respect to the acquisition of materials required by the United States as a result of deficiencies or potential deficiencies in its own resources. It also provides that the participating country is to agree to negotiate suitable protection for the right of access for United States enterprises in the development of such materials on terms comparable to those afforded to nationals of the country concerned.

The committee also included a further paragraph (par. 10) which will require the submission to the International Court of Justice, or any other arbitral tribunal mutually agreed upon, of any dispute involving compensation of a national of the United States for governmental measures affecting any of the property rights of the United

States national, provided that the case is one which the United States Government actually espouses.

Section 115 (c): Detailed and comprehensive agreements such as are contemplated under subsection (b) may well require some time to conclude, particularly since the constitutional systems of some participating countries require that agreements of this character be submitted to their legislatures for ratification. Accordingly, subsection (c) authorizes the Administrator, for a period of 3 months after the date of enactment of this act, to provide assistance to any participating country in accordance with the terms of this title whenever such country has signified its adherence to the purpose of the title and its intention to conclude an agreement in accordance with subsection (b) of this section and provided that the Administrator finds that such country is complying with such provisions of subsection (b) as he may determine to be applicable. In order to assure that conditions of hunger and cold will be alleviated and economic retrogression will be avoided, the Administrator is further authorized through June 30, 1948, to provide for the transfer of stated essential subsistence items to any country which participated in the Committee of European Economic Cooperation even though it has not been possible within that period to complete the interim arrangements contemplated by this subsection.

Section 115 (d): The follow-up system contemplated in this subsection will supplement that provided for the Administrator by the special missions established under section (9) of the bill.

Section 115 (e): This subsection, inserted by the committee, provides that the Administrator shall encourage arrangements among the participating countries which would seek to obtain the largest practicable utilization of manpower in any of the participating countries. It is specifically provided that this would include the acceptance by the participating countries of a fair share of displaced persons, including family groups, who are presently the responsibility of the International Refugee Organization. The arrangements to carry out this provision are to be established in cooperation with that Organization.

This subsection also provides that the Administrator is to request the Secretary of State to seek to obtain the agreement of those countries concerned that such capital equipment as is scheduled for removal of reparations from the three western zones of Germany be retained in Germany if that would most effectively serve the purposes of the European recovery program. In view of the fact that the removal program is the subject of multilateral agreements to which the United States is a party the committee is convinced that this is the furthest it can go in seeking a reexamination of the removal program.

Subsection (f) dealing with the repatriation of prisoners of war remaining in participating countries expresses the understanding of the committee that at the present time agreements between the United States and the affected participating countries are now being carried out providing for the repatriation of prisoners of war to the extent that they freely elect to be repatriated.

Section 116: Under this section the President is to take appropriate steps to encourage Western Hemisphere countries to render such assistance to participating countries as they may be able to furnish.

Section 117 (a): This section is designed to make possible the use of funds appropriated under authority of this title to increase the production in participating countries, whenever practicable, of materials required by the United States as a result of deficiencies or potential deficiencies in its own resources.

Section 117 (b): This subsection provides that the Administrator, in cooperation with the Secretary of Commerce, should take such steps as may be possible to encourage travel by United States citizens to and within participating countries. It is expected that the Secretary of Commerce, under this provision, will work out with private and public travel, transport, and other agencies the means whereby, for example, publicity can be given to the advantages of such travel.

Section 117 (c): This subsection gives the Administrator discretion to further the efficient use of voluntary contributions for relief in participating countries. This assistance, under such rules and regulations as the Administrator may prescribe, may be rendered by the payment of port charges in the United States and ocean freight charges from the United States port to a foreign port of entry, of supplies donated to or purchased by certain United States voluntary relief agencies or of relief packages, conforming to specifications prescribed by the Administrator. This subsection is also made applicable to any of the zones of occupation of Germany for which assistance is provided under this title and the Free Territory of Trieste and either of its zones. It also authorizes the Administrator to enter into an agreement with any affected country for the use of the local currency deposits to defray the transportation costs of such supplies and relief packages within such country.

Section 117 (d): Certain countries of Europe have announced their intention to oppose the European recovery program and to take steps to prevent its success. Accordingly, the committee inserted this subsection to prevent certain United States goods from being used to increase the resources of such countries through trade with the participating countries. Thus, the Administrator is to refuse delivery to a participating country of any commodities or products which might go into the production of commodities or products for the countries opposing the program, where the United States would not license those commodities for export to such countries.

Section 118: This section is to assure that continuity of assistance under the program will be conditional upon compliance with undertakings by the participating country receiving assistance. In certain cases, viewed in the light of the nature or circumstance of a violation, the Administrator may determine that some corrective or preventive action may be more appropriate than termination of assistance. The committee amended S. 2202 to assure that such termination of assistance would, to the extent possible, include the termination of scheduled deliveries.

Section 119: This provision is necessary in order to provide flexibility in connection with the procurement and shipment of commodities and other similar operations under this title. Among the laws concerning which it can be expected that this authority will be exercised by the President are:

1. Revised Statutes 3648: Advances of public money; prohibition against. This law generally prohibits advance payments

out of public funds for articles or services prior to receipt of such articles or services.

2. Revised Statutes 3709: Advertising for purchases and contracts. This law requires general advertising for all Government purchases.

3. Revised Statutes 3710: Opening of bids. This law provides that all persons bidding on Government contracts must be given an opportunity to be present at the opening of bids.

4. 47 Stat. 1520: American materials required for public use. This law, known as the Buy American Act, requires the purchase of raw and finished material produced in the United States if they are intended for United States public use.

5. 15 U. S. C. 616a: Goods purchased out of Government loans must be shipped in United States vessels.

The general authority for exemption from laws such as those referred to above, will also permit waiver in cases where a law specifically requires a finding to be made by the heads of various departments before operations may be carried on with regard thereto. Such requirements could delay operations to an extent which would be harmful in an urgent program of this type. In order to assure that the power of waiver will be employed only where essential, it is provided that the President must specify which laws are to be waived.

Section 120: The purpose of this section is to make it possible for persons to serve on the Public Advisory Board or on any other advisory committee established under the authority of section 107 (b), or as a consultant to assist the Administrator in carrying out this bill, despite the participation of such a person in activities, as part of his private business operations, which would bring him within the prohibition of certain existing Federal laws. Under existing legislation it is unlawful, for example, for a person to have a financial interest in a claim being prosecuted against the Government while such person is serving as an official or employee of the Government. This type of legislation is necessary and proper in connection with ordinary operations of the Government. However, it is extremely desirable, in connection with the European recovery program, to permit the employment of experienced lawyers and businessmen. Legislation of the type waived by this section would unduly restrict the participation of such persons in the program. This was demonstrated during the war when similar exemptions were permitted in order to enable greater participation of businessmen in connection with wartime programs, as in the case of selective-service boards and alien and enemy hearing boards.

Section 121 (a): This subsection authorizes the President to request the use of the services or facilities of the United Nations or any of its specialized agencies or the services or facilities of any other international organization, and further authorizes the President, out of funds appropriated under this bill, to spend any sums necessary for this purpose. The committee amended S. 2202 so as to make clear that the Administrator cannot delegate to any international or foreign agency his authority to decide the method of furnishing assistance, or the amount of such assistance.

Section 121 (b) and (c): Subsections (b) and (c), by requiring that the President cause to be transmitted to the Secretary-General of the United Nations copies of reports of operations under this title transmitted to Congress in accordance with section 123, and by further requiring that any agreements concluded by the United States under section 115 be registered with the United Nations if required by the Charter of the United Nations, assures that the United Nations will be kept fully informed on operations under this title.

Section 122 (a): This subsection provides that operations under this title are to be terminated on June 30, 1952, or prior thereto if the two Houses of Congress shall pass a resolution declaring that such operations should be terminated. The operations to which this provision applies are those set forth in section 111 (a), namely, the various methods by which assistance may be rendered to the participating countries. An exception to the terms of the provision will permit the completion of commitments made by the Administrator prior to June 30, 1952. Hence, if the Administrator has authorized the procurement of a commodity prior to June 30, 1952, but shipment or delivery to the participating country has not been effected prior to that date, these functions may be performed after that date to the extent necessary to carry out such commitment. This subsection also permits contracts to be made after June 30, 1952, to the extent necessary to carry out these commitments. For example, the Administrator may use funds appropriated under this title for payment of freight on commodities shipped during the 12-month period following June 30, 1952, if such commodities are procured under a commitment entered into by the Administrator prior to that date. It is believed that, by limiting the period during which these operations may be continued to 12 months, this title provides assurance that operations will be completely terminated at the earliest date consistent with the effective carrying out of the purposes of this title.

Section 122 (b): Under this subsection, the liquidating activities under this program, at such time after June 30, 1952, as the President may find appropriate, may be transferred to such departments, agencies, or establishments of the Government as the President finds appropriate.

Section 123: This section, by providing that the President must at least once every calendar quarter until June 1952, and once every year thereafter until all operations under this bill have been completed, transmit to the Congress a report of operations under this title, assures that the Congress will be kept currently informed of such operations. The committee amended S. 2202 to provide that the text of the bilateral and multilateral agreements will also be so submitted.

Section 124: This standard separability provision applies to the entire bill.

TITLE II

Section 201: This section contains the citation of the title.

Section 202: This section indicates that the purpose of the title is to provide for the special care and feeding of children through contributions to the International Children's Emergency Fund created by the United Nations.

Section 203: This section authorizes contributions to be made until July 1, 1949. Such contributions may be made out of funds appropriated under this title and also from funds made available under the joint resolution of May 31, 1947, providing for relief assistance to the war-devastated countries.

Section 204: This section provides the top limit of the amount of contributions that may be made by the United States to the Fund. The sum of contributions made under this title and those made under the joint resolution of May 31, 1947, may not exceed the lesser of the following amounts: (1) 50 percent of the total resources contributed by all governments or (2) $100,000,000.

Section 205: No further contributions, either under this title or under the joint resolution of May 31, 1947, may be made unless, at the time of such contributions, governments other than the United States have contributed at least 20 percent of the total resources contributed by governments for such use after May 21, 1947. It is to be noted that this provision does not permit the inclusion of contributions made by agencies, organizations, or individuals other than governments. At the present time, the total actual contributions from governments is approximately $29,000,000, and governments other than the United States have contributed approximately $14,000,000.

Section 206: The funds appropriated under the joint resolution of May 31, 1947, are now available only until June 30, 1948. Section 206 continues the availability of these funds until June 30, 1949. The matching provisions of that law, in the ratio of 57 and 43, are not retained. In computing the contributions made by the various governments, contributions in kind and in the form of services are, of course, to be included, and their value should be based on the cost of such contributions in the country where they are procured or rendered. It is expected that such cost will then be converted into dollars at the appropriate rate of exchange existing at the date of the contributions.

Section 207: This section contains the authorization for an appropriation in the amount of $60,000,000, to be available during the fiscal year ending June 30, 1949.

TITLE III

This title contains the provision of the bill relating to military assistance to China and the continuation of military assistance to Greece and Turkey. China is included by amendment of Public Law 75, Eightieth Congress, which authorized the President to render aid to Greece and Turkey.

Section 301: This section is self-explanatory.

Section 302: This section amends paragraph (2) of section 1 of Public Law 75, Eightieth Congress, to make it expressly clear that, in accordance with existing practice, civilian personnel of the United States Government may be detailed to the governments of the countries receiving assistance as well as to the United States missions in those countries, and that, regardless of where detailed, the same provisions relating to reemployment rights, travel expenses, and allowances shall be applicable. This section also places United States military personnel in such countries, both prospectively and retrospectively, on the same footing with civilian personnel in respect of allowances.

In lieu of the heretofore existing provision relating to FBI investigation, a provision is inserted identical in effect to section 110 (c) of title I.

Section 303: This section makes it clear that United States military personnel detailed to the governments of the countries receiving assistance are on the same footing with respect to pay, allowances, and other rights as United States military personnel detailed to the United States missions in such countries.

Section 304 (a): This section contains an authorization for the Reconstruction Finance Corporation to advance $50,000,000 for the purposes of this title. As in the case of the original advance by the Reconstruction Finance Corporation under Public Law 75, Eightieth Congress, no interest is to be charged by the Reconstruction Finance Corporation and no interest is to be charged by the Treasury on advances made by it to the Reconstruction Finance Corporation for the purposes of this section.

Section 304 (b): $275,000,000, in addition to the $400,000,000 heretofore authorized, is authorized to be appropriated for continued assistance to Greece and Turkey under Public Law 75 as amended by this title.

Section 304 (c): $150,000,000 is authorized under this section to be appropriated for assistance to China under Public Law 75 as amended by this title.

Section 305: This section amends the title of Public Law 75, Eightieth Congress, to include China, and provides for the inclusion of China wherever the countries receiving assistance under such act are named in such act other than in the preamble. Thus, all the provisions (other than the preamble) of Public Law 75, as amended by title III, are made applicable to China as well as to Greece and Turkey.

TITLE IV

This title is concerned with such assistance to China as intended to be economic in character.

Section 401: This section is self-explanatory.

Section 402: This section sets out the purposes for which assistance to China is made available under title IV. The policy of the United States is declared to be the encouragement of the Chinese people to exert sustained common efforts for the speedy achievement of internal peace and economic stability, to encourage the Republic of China in its efforts to maintain genuine independence and administrative integrity, and to sustain and strengthen principles of individual liberty and free institutions in China through a program of assistance based on self-help and cooperation on the part of the Chinese people themselves. This policy is expressly made subject to the following qualifications:

(*a*) that the contemplated assistance to China shall not seriously impair the economic stability of the United States;

(*b*) that the contemplated assistance is at all times dependent upon cooperation by the Republic of China and its people in furthering the United States program based on self-help and cooperation on the part of the Chinese people;

(*c*) that the United States assumes no responsibility, express or implied, for policies, acts, or undertakings of the Republic of China or for conditions at any time prevailing in China.

Section 403: This section authorizes appropriations under the Foreign Aid Act of 1947 in the amount of $420,000,000, in addition to previous authorizations, to remain available for obligation for aid to China until June 30, 1949. Section 403 amends the Foreign Aid Act of 1947 in respect of aid to China, in the following additional particulars:

(*a*) The provisions of section 4 of the Foreign Aid Act of 1947 relating to offshore procurement and items other than petroleum and petroleum products in short supply in the United States, and the provisions of section 11 (b) of that act relating to the wheat carry-over, are made inapplicable. This is because the provisions for the protection of the domestic economy contained in section 112 of title I of the act are believed to be more appropriate for a program of relatively extended duration. In accordance with the scheme of having this title administered by the Administrator for Economic Cooperation, the provisions of section 10 of the Foreign Aid Act of 1947, relating primarily to the powers and duties of the President, the Secretary of State, and the field administrator for foreign relief and to investigation of personnel, are made inapplicable with respect to aid to China.

(*b*) The bilateral agreement with China is to contain, in addition to the undertakings provided for by section 5 of the Foreign Aid Act of 1947, such other undertakings relating to matters covered in paragraphs (1) through (10) (except paragraphs (3) and (6)) of section 115 (b) of title I as the Administrator considers appropriate in the light of Chinese conditions. The agreement may also contain such other undertakings by China consistent with the purposes of section 402, as may improve commercial relations between the United States and China (including the furnishing of equality of opportunity to American enterprise).

(*c*) The commodities and services authorized to be made available under section 3 of the Foreign Aid Act of 1947 are expanded to include such other commodities and services (including technical assistance, such as sending expert advisers) as may be necessary to accomplish the purposes stated in section 402.

(*d*) Provision is made for temporary assistance to China during a period not to exceed 3 months pending the conclusion of the bilateral agreement.

(*e*) The sections of title I of the bill which are enumerated in section 403 (e) are made applicable to aid to China in the same manner and to the same extent as such sections are applicable to assistance to participating countries under title I, so far as such provisions are relevant in the case of China. Of course, such sections are to be applied to Chinese aid in furtherance of the purposes stated in section 402 rather than in section 102.

(*f*) Loans and credits for aid to China under title IV are to be administered by the Export-Import Bank of Washington in accordance with terms specified by the Administrator in consultation with the National Advisory Council.

(*g*) The heretofore unused authority to secure an advance of $150,000,000 from the Reconstruction Finance Corporation provided in section 11 (d) of the Foreign Aid Act of 1947 is revived for aid to China. Without this specific revival, the authority would not exist because of appropriations which have previously been made under that act.

(*h*) Of the funds made avialable for the purposes of title IV, not less than 5 nor more than 10 percent are to be used for the purposes of rural reconstruction provided for in section 404.

Section 404: This section provides for an agreement with China establishing a Joint Commission on Rural Reconstruction in China, to be composed of two United States citizens appointed by the President of the United States, and three Chinese citizens appointed by the President of China. The Commission, subject to the direction and control of the Administrator, shall formulate and carry out a program for rural reconstruction in China, including necessary or appropriate research and training activities. This section specifically provides that no express or implied assumption of any responsibility for further contributions for this purpose is made by the United States.

Section 405: This section provides for the establishment of a special United States mission in China, responsible to the Administrator, analogous to the special missions provided for in section 109 of title I. The chief of the special mission is to keep the United States Ambassador to China, the Administrator, the Secretary of State, and the chairmen of the Senate Foreign Relations Committee, the House Foreign Affairs Committee, and the two congressional Appropriations Committees currently informed concerning his activities.

○