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## EMERGENCY FOREIGN AID

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DECEMBER 2, 1947.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

### REPORT

[To accompany H. R. 4604]

The Committee on Foreign Affairs, to whom was referred the bill H. R. 4604, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### IMMEDIATE PURPOSE OF THE LEGISLATION

The bill provides authority to appropriate \$590,000,000 to provide aid to Austria, China, France, and Italy. For the European countries this will enable them to maintain their present essential imports, without which their economic recovery will receive a severe setback. For China it will permit the initiation of aid by the United States in order to check inflation, now threatening the Chinese people with ruin. The administration of the program will be carried forward by the same organization now operating under Public Law 84, but will be transferred to a regular agency for foreign aid as soon as such an agency may be established. The bill also makes provisions for utilizing other sources of supply for scarce commodities, encouragement of self-help, and for safeguarding the proper interests of the United States.

#### COMMITTEE ACTION

The Committee on Foreign Affairs had before it, in addition to the testimony of the Secretary of State at a joint session of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs November 10, 1947, the studies of the Select Committee on Foreign Aid: (1) The Italian Crisis and Interim Aid, (2) the French Crisis and Interim Aid, (3) Grain Requirements and Availabilities (cereals except rice), (4) Fertilizer Requirements and Avail-



abilities, (5) Petroleum Requirements and Availabilities, (6) United States Steel Requirements and Availabilities, (7) Coal Requirements and Availabilities. In its open hearings, the committee had before it Secretary of State George C. Marshall for cross-examination, Under Secretary of State Robert A. Lovett, Secretary of Commerce W. Averell Harriman, Hon. Lewis W. Douglas, United States Ambassador to Great Britain, Mr. R. M. Bissell, Jr., Executive Secretary, President's Committee on Foreign Aid, Mr. Dallas Dort, Adviser on Relief and Rehabilitation, Department of State, and Mr. C. Tyler Wood, Deputy to Assistant Secretary of State.

In addition to these witnesses, the Committee heard as witnesses a number of Members of Congress fresh from intensive investigations abroad, or in special connections, including Representatives Christian A. Herter, Karl E. Mundt, Pete Jarman, Frances P. Bolton, John Davis Lodge, Donald L. Jackson, James P. Richards, Chester E. Merrow, Walter H. Judd, Everett M. Dirksen, August H. Andresen, Jacob K. Javits, John M. Vorys, Ellsworth Buck, Eugene E. Cox, Francis Case, Virgil Chapman, Harold D. Cooley, John W. Flannagan, Stephen Pace, Lawrence H. Smith, and Charles W. Vursell.

These hearings were held from November 10, 1947, through November 20, 1947. The committee further examined in executive session Maj. Gen. Stephen J. Chamberlin, Director of Intelligence Division, Department of the Army; Brig. Gen. Jesmond D. Balmer, United States Deputy Commissioner of Austria, Under Secretary of State Lovett, Dr. W. M. McGovern, and Mr. James K. Penfield, Deputy Director, Office of Far Eastern Affairs, Department of State.

#### INVESTIGATION BY THE COMMITTEE

The growing crisis of the European economy was noted by the Foreign Affairs Committee in the preliminary report of Subcommittee No. 2 on Foreign Economic Policy under the chairmanship of Representative John M. Vorys: Needs, Limits, and Sources of American Aid to Foreign Countries; Supplementary Sources From Self-Help and Other Countries. This report, issued in July 1947, brought together existing studies of the problem and made an analysis of its probable magnitude. It pointed to a method of analysis in terms of the availability of short commodities and raised the political questions which would have to be settled before an intelligent appraisal of the possibilities of a healthy European recovery can be made.

The estimates of the subcommittee report, which was approved for publication by the Foreign Affairs Committee, indicated that Europe would require new funds from sources not already in sight to an amount of almost \$1,000,000,000 in 1947, unless it were to draw down all its reserves. A continuing deficit of even more serious proportions, running to several billion dollars, was certain to be faced in 1948, unless new funds were made available. The drawing down of all available dollar reserves has actually proceeded until little is available except those privately held foreign assets to which the subcommittee called attention in its report and in its analysis of the letter of Herbert Hoover to Senator Styles Bridges. These privately held foreign assets for the countries of western Europe, mainly Swiss and French, were in the form of investments made through American channels and often disguised as to ownership, in the instance of French units to escape seizure by the French Government at the



existing official exchange rate of the franc. Their discovery and sequestration by the French Government would present complex legal problems as well as policy issues with which the report did not attempt to deal.

Staff studies were pursued at the direction of the committee, and 4 of its members—Chairman Eaton, John M. Vorys, James P. Richards, William M. Colmer<sup>1</sup>—were appointed to the Select Committee on Foreign Aid, a group of 19 members made up of representatives of the major committees of the House which were concerned with various aspects of the problem. This committee was also under the chairmanship of the chairman of the Foreign Affairs Committee, Charles A. Eaton. In its European studies from August 28 to October 10, under the vice chairman, Christian A. Herter, it collected information on a wide variety of topics which, so far as they affected the interim aid program, have, as noted above, been made available to the Foreign Affairs Committee.

In addition to this study committee, subcommittees of the Foreign Affairs Committee made detailed investigations in Europe and other areas: Karl E. Mundt was cochairman of a joint Senate-House group which included Representatives Lawrence H. Smith, Walter H. Judd, John Davis Lodge, Pete Jarman, Thomas S. Gordon, and Mike Mansfield; Frances P. Bolton was chairman of a study group consisting of Representatives Chester E. Merrow, Donald L. Jackson, and Franklin J. Maloney; James G. Fulton headed the group made up of Representatives Jacob K. Javits and Joseph L. Pfeifer. Representative John Davis Lodge also made a special investigation concentrating on Italy, but covering other countries of Europe and the Near East. Some of these groups were accompanied by other members of the House.

During the hearings these members made available the results of their studies to the full committee.

The House of Representatives, through its own machinery and in particular through the Foreign Affairs Committee, had therefore set in motion an independent study of foreign aid, not limiting this study to European aid alone since Representative Judd with a staff member of the committee made a study also of Japan, China, and Korea. Liaison was maintained with the Armed Services Committee of the House which was also engaged in studies bearing on the problem. It was the conclusion of the Foreign Affairs Committee, after hearing the evidence presented by these members and examining the studies made available to them, and through the hearings and the reports of the Select Committee on Foreign Aid, that immediate action was required to meet the crisis in Austria, China, France, and Italy.

#### OBJECTIVES OF THE PROGRAM

The purpose of this bill is to provide immediate aid in the form of food, fuel, and other aid specified in the bill urgently needed by the peoples of Austria, France, and Italy which are hereafter referred to as the recipient countries, to prevent conditions of internal shortages that would produce widespread and serious hunger and cold; and, further, to prevent the serious economic retrogression which would jeopardize any general foreign economic recovery program. Its object is to afford the necessary funds and credits for the purchase of com-

<sup>1</sup>Mr. Colmer resigned in August and was replaced by Representative Eugene E. Cox.



modities that will permit continued self-help to the peoples of the countries concerned and the stabilization of their economies through which their political security may be achieved, to protect free institutions in these countries. The relation of the economic health of western Europe to the safety of free institutions in the world has been proved to the people of the United States by two world wars into which the United States has been drawn in the interests of its own national security as a nation. Neither the peace nor American security is assured in a world in which imperialistic communism has already installed the police state in many countries of eastern Europe and is driving to extend its control to western Europe and China. For China the objective is to initiate the aid without which China cannot rally her own strength to stabilize her currency, reform her administration and win her civil war, the first steps toward resumption of economic and political progress.

#### SUMMARY OF THE BILL

The provisions of the bill may be summarized as follows:

1. The purpose of the act is to provide immediate aid to Austria, China, France, and Italy (sec. 2).
2. The President is authorized to allocate funds or to establish credits available to recipient countries (sec. 3).
3. The President is authorized to procure specified goods, transport and store them, transfer them to recipient countries, and incur administrative and other expenses (sec. 3).
4. Not more than 25 percent of the amount authorized shall be used for procurement of supplies outside the United States at delivered prices higher than from the United States (sec. 4).
5. Petroleum shall be procured outside the United States to the maximum extent practicable, and transported by the most economical route (sec. 4).
6. Before any aid is given the recipient country must agree:
  - (a) To make efficient use of supplies furnished (sec. 5a).
  - (b) To use local funds received from the sale of supplies only as agreed upon with the United States (sec. 5b).
  - (c) To give full publicity to the aid received (sec. 5c).
  - (d) To inform the United States concerning production, use, etc., of supplies involved in aid (sec. 5d).
  - (e) To sell any supplies which may be sold under this act at reasonable prices (sec. 5e).
  - (f) To take measures to increase its domestic supplies (sec. 5f).
  - (g) To use incentive goods to increase production (sec. 5g).
  - (h) To export no commodities made available under the Act, nor others of the same character (sec. 5h).
  - (i) To permit representatives of the United States Government to observe, advise and report (sec. 5i).
  - (j) To permit representatives of the press and radio of the United States to observe and report (sec. 5j).
7. Termination of aid is provided for in case of breach of agreement or cessation of need (sec. 6).
8. So far as practicable, all commodities shall be so marked that the people who receive them will know the source of the aid (sec. 7).
9. Aid by other countries is to be encouraged (sec. 9).



10. No citizen or resident of the United States may be employed without FBI clearance (sec. 10).

11. There shall be a National Food Conservation Committee on a voluntary basis (sec. 11).

12. The amount authorized for the program is \$590,000,000 (sec. 12).

13. The authorization involves no obligation on the United States to provide aid (sec. 12).

14. The Reconstruction Finance Corporation is authorized and directed to make advances not to exceed \$150,000,000 (sec. 12).

15. Personnel are not included in computing limitations on established personnel (sec. 13).

16. The President shall transmit reports to Congress quarterly or oftener (sec. 14).

17. The establishment created for this program shall be transferred to any organization which may be established for general foreign aid (sec. 15).

18. The provisions of clause 1 of the proviso section of Public Law 84 of the Eightieth Congress are amended (sec. 16).

19. Separability clause (sec. 17).

#### RELATED PROBLEMS NOT SETTLED IN THE BILL

There were several problems raised in the course of study investigations or in committee consideration of the bill on which the bill makes no specific provision. In the judgment of the committee it was best to make no provision in these cases.

The first of these problems had to do with the use of private rather than Government shipping facilities. This question was raised in connection with the past use of Government ships to carry cargoes to Greece and Turkey. The committee is advised that existing law does not, in the opinion of the Attorney General, prevent the use of private shipping or freight forwarding facilities. This leaves the question of relative costs as between privately owned American shipping and Government owned and operated ships, as also the question of costs as between American and foreign shipping. The same applies to freight forwarding facilities. The committee feels that this question deserves further consideration and policy decision in connection with the long-term aid program, but that it does not require settlement in connection with interim aid.

The second such question is that of substitute foods. It is the assumption of the committee that substitute foods will be utilized insofar as possible in the program to relieve pressure on scarce commodities and to save costs. There is some evidence of a tendency to cling to bread grains as the vehicles of all food aid, because they are the basis of initial requirements estimates; this, however, maintains price pressure on bread grains to a degree that might be relieved by recourse to some other foods such as sugar, peanuts, etc. A rise in price of as much as 25 cents per bushel on wheat and corn would cost the United States people more than the entire cost of the foreign aid program authorized by this bill. It is therefore the intention of the committee that this problem shall have further study in connection with any long-term aid proposal. The Secretary of State has stated that the use of substitute foods is intended.



## AMOUNT AUTHORIZED BY THE BILL

The bill authorizes the appropriation of \$590,000,000.

Several factors were brought out in discussion as being so unpredictable as to make precise calculation impossible. One of these is the problem of incentive goods, for which no direct allowance was made in the original estimates. Another is that of substitute foods, for which no calculation is immediately possible. The committee, however, has also eliminated the set terminal date of March 31, 1948. This, in the committee's judgment, leaves the total authorization of \$590,000,000 adequate for a flexible and effective program for the countries included in the President's program, that is, Austria, France, and Italy, and for China, which was added by the committee.

The amount authorized differs from the amount requested—that is, \$597,000,000—by \$7,000,000. This change is the resultant of two specific additions, one specific reduction, and a lump adjustment. The first addition was \$16,000,000 to replace for Austria funds under Public Law 84 earmarked for the children's fund, but counted on as available for Austria in the original estimates of Austria's requirements. The second addition is an allowance of \$60,000,000 to cover immediate aid to China. The specific reduction of \$12,000,000 was made against the Italian fats-and-oils requirement, on assurance from the Department of State that an unanticipated increase in Italian olive oil production eliminated the requirement.

The committee considered several other reductions in specific items in the schedule of requirements submitted by the Department of State. Some of these were founded on indications that the amount of wheat available in European countries is greater than originally estimated, or that the amount that could be shipped would be less than originally estimated.

The committee found that even during the time when they were considering the matter the best available estimates changed frequently under the impact of new developments. It endeavored to take account of expert advice which cast doubt on some of the requirement figures offered, but reached the conclusion that a general reduction, not allocable to any particular items, was a more valid approach to the problem than any specific reductions would be. It is impossible in the nature of the case to determine each separate item accurately. It was therefore the opinion of the committee that a blanket reduction, on a scale indicated by a general study of the items, was the most feasible method.

## IMMEDIATE NEEDS OF AUSTRIA, FRANCE, AND ITALY

The call for Congress to resume its session on November 17 was occasioned by the critical dollar shortage of France and Italy. Before the Congress met, Austria was added to the list because it had become apparent that Austria also would be unable to wait until action by Congress could be expected in the second session. The dollar shortage meant that all money available from exports, from existing dollar balances, and from gold would be inadequate to pay for the continuing imports of essential food, fuel, and other materials. Without the continuation of imports at a minimum basis the economies of the countries concerned would be threatened with collapse.



The State Department stated that in the period December 1, 1947, to March 31, 1948, France would have to incur charges of \$816,000,000 and would be able to meet only \$488,000,000, leaving a deficit of \$328,000,000. Italy would have to incur charges of \$486,000,000 and could meet only \$259,000,000, leaving an adverse balance of \$227,000,000. Austria would need \$73,000,000 and could pay for only \$31,000,000, leaving \$42,000,000. The sum of these three balances that would have to be covered by aid from the United States was \$597,000,000.

For each country the requirements that could not be covered without aid on the basis of State Department figures are given below.

*Commodities to be supplied to France under interim-aid program during period  
Dec. 1, 1947, to Mar. 31, 1948*

[Millions of dollars]	
1. Wheat.....	111
2. Milk products.....	3
3. Fats and oils.....	20
4. Coal from United States.....	116
5. Coal from Germany.....	9
6. Petroleum products.....	22
7. Cotton.....	38
8. Fertilizer.....	9
Total.....	328

*Commodities to be supplied to Italy under interim-aid program during the period  
Dec. 1, 1947, to Mar. 31, 1948*

[Millions of dollars]	
1. Cereals.....	128
2. Fats and oils.....	12
3. Pulses.....	5
4. Milk products.....	2
5. Coal:	
From United States.....	36
From Germany.....	10
6. Petroleum supplies.....	13
7. Fertilizer and other agricultural supplies.....	19
8. Medical supplies.....	2
Total.....	227

*Commodities to be supplied to Austria under interim-aid program during first quarter  
of 1948*

[Millions of dollars]	
Food.....	20
Coal.....	13
Seeds, fertilizers, and pesticides.....	7
Medical supplies.....	2
Total.....	42

REASONS FOR THE IMMEDIATE CRISIS IN AUSTRIA, FRANCE, AND ITALY

Although all the European economies, in common with most of the economies of the world, have suffered severe shortages of dollar exchange with which to purchase essential imports, the plight of Austria, France, and Italy was particularly serious, since their reserves might well be exhausted prior to any action Congress might take in



the regular session opening in January 1948. The President's summoning of Congress took place after consultation with congressional leaders in two meetings, in the first of which on September 29, the chairmen of the House Foreign Affairs Committee and Senate Foreign Relations Committee agreed to call their committees into session as soon as the members could return from their study trips abroad, which was not prior to November 10. The Select Committee on Foreign Aid was convened on November 5 to assemble its findings and present them to the House. At the second meeting the President, without further consultation, announced the calling of the Congress.

In the case of France, a presentation of all the available resources to secure dollars which France could command indicated that France would not be able to finance her essential imports beyond the month of December, and that Italy might also be deprived of dollar assets at the same time. There was some question as between the Select Committee on Foreign Aid and the Department of State as to the estimate of the time at which all dollar assets would be completely exhausted, the State Department taking the view that, in the case of Italy, they would be substantially unavailable after December 1. It was agreed, however, that the situation was critical and that in order to maintain a pipe line of supplies, action by Congress during December at the latest would be required, unless special authorizations were given to the Export-Import Bank to widen the latitude of its loans to a non-commercial basis and to the Commodity Credit Corporation to utilize its funds for what would essentially be relief purposes.

#### GENERAL SETTING OF THE EUROPEAN CRISIS

The committee was of the opinion that while the plight of Austria, France, and Italy was unique in the immediacy of the need for aid, it formed a part of the larger problem of the inability of European countries to export enough to pay for their necessary imports. This in turn was the product not only of the destruction caused by the war and of the inevitable delays in recovery due to crippled transportation systems, the unavailability of raw materials, particularly coal, and the shortage of food for an adequate diet for workers. It was also due, the committee found, to two other factors of major importance:

##### *The role of Communism*

The refusal of Russia to permit eastern Europe to resume its natural place in the economy of Europe and the world has meant that the "bread basket" and raw-material supplies of the eastern European countries were diverted from what had been their normal channels to the west where more than two-thirds of their trade had gone prior to the war. The Soviet Government imposed what amounted to a veto on the cooperation of any of the eastern European countries in the efforts of western Europe to meet the Marshall proposals that they join in helping each other and themselves. Russia, in short, had severed eastern from western Europe and declared by numerous pronouncements of the Soviet leadership, notably, Molotov, Vishinsky, and Zhdanov, that they would oppose by every means at their command the economic recovery of Europe through mutual self-help and American aid. The strategy of Communist conquest, added to the needs of Soviet planning for a great war machine, demanded that eastern



Europe serve Russia, not its own needs or those of the rest of the world.

This attack on American assistance by one of the powers which had benefited most by that assistance during the postwar and UNRRA period was accompanied by an unparalleled campaign of vilification of individual American leaders, including the President of the United States, and the motives of the entire American Nation. The power that had openly declared a war on the free institutions of the west and that had stamped out, contrary to all the agreements entered into at the end of the war, free democracy in country after country, proceeded to term "imperialism" the aid of the United States which had taken the form in most cases of gifts, or of loans that were in the nature of gifts, for European and world recovery. At the same time the Russian Government proceeded to strip the countries under its control of their assets and to impose what amounted to forced contributions to the Russian economy of a substantial part of their current production. This under the terminology of Moscow was called liberation, not imperialism.

The program thus being prosecuted by Russia has not been limited to a campaign of verbal aggression and the excesses of party-line propaganda. Communist leadership has now instigated a reign of strikes and violence under Communist leadership and a systematic campaign designed to prevent the economic stabilization of the European countries. The campaign in both Italy and France and the efforts to inspire general strikes have increased in violence in past weeks. This campaign can only be regarded as an indication that the Communist-controlled parties in countries where free elections are still permitted intend to use any and all means, legal or otherwise, to win back the ground lost in elections and to seize power.

#### *German paralysis*

The second aggravating factor which has adversely affected the recovery of Europe from the destruction of war is the delay in the recovery of Germany. This delay has been produced partly by Russian vetoes in the Control Council in Berlin and partly by the blocking by Russia of any reasonable terms for a final German peace. This has caused a corresponding delay in the establishment of a German government, in the transfer of functions to such government, in the growth of economic exchange between the zones, in the final settlement of removals for reparations, in the creation of a German currency, and in the determination of German boundaries. These delays have deprived the Germans of every basic premise required for healthy economic activity. The delay has been mitigated only by recourse to unilateral action by the United States or bilateral action with the British in establishing a bizonal administration and in finally settling the list of plants to be dismantled and revising the level of industry.

Under the Potsdam agreement, Russia has the power to collaborate in the creation of a Germany able to contribute to European peace and prosperity and subject to safeguards against future aggression. This power of Russia's has also been the power to block any program in Germany. The Soviet has used it only as a veto, a secret weapon by which to stop the democratic reconstruction of Europe by blocking its economic rehabilitation. The policy of the United States has been to live up to the terms of Potsdam by delivering reparations to Russia



and other countries from plants in the United States zones. The policy of the United States in permitting really free elections and encouraging exchanges of food products, fertilizers, and manufactured goods between zones has been continued in spite of the mounting difficulties caused by Russia's failure to carry out the terms of the Potsdam agreement as expected.

Not only have the Germans suffered from the economic uncertainty arising from this situation. Almost equally grave in its effect has been the inability of European countries, dependent upon German exports and the German market, to plan for their own recovery. German recovery and production does not and need not in the opinion of the committee imply the re-creation of Germany's military potential.

#### *Other unfavorable factors*

In addition to these political factors which have influenced the whole sense of stability and security in Europe, the natural weakness of an underfed population and the fatigue and inefficiency produced by lack of adequate supplies to make a continuous operation of the economic mechanism possible at full capacity, the acute shock of the unusually severe winter and the heavy European drought which cut down crops in some instances by as much as half have all tended to bring matters to a crisis. The recovery of markets abroad depended upon an export surplus which these countries were simply unable to produce. Shortages of every basic factor in economic recovery, and particularly of food, fuel, and fertilizer, have prevented the adequate employment of the existing manpower of Europe. In addition, the utilization of available manpower by transfers of surplus workers from Italy, the repatriation of German prisoners, particularly coal miners, to the German mines where they can produce two to three times as much as they can in France, and the proper recruitment and employment of displaced persons have all lagged seriously and have therefore contributed to the European decline.

#### *Favorable factors*

It must be emphasized, however, that substantial steps toward recovery have already been made. In most instances the transportation systems have been restored to a point of being able to move the goods that are being produced though there is still a gap between their capacity and the production that will be needed to insure stabilization and recovery. Most of the economies of Europe are now producing on a general level not far below their prewar production.

#### *Index of industrial production*

[1938=100]

	1946	1947 <sup>1</sup>		1946	1947 <sup>1</sup>
Austria.....	35	45	Portugal.....	( <sup>2</sup> )	( <sup>2</sup> )
Belgium-Luxembourg.....	90	110	Sweden.....	110	115
Denmark.....	97	105	Switzerland.....	124	128
Ireland.....	110	110	United Kingdom.....	100	<sup>3</sup> 100
France.....	80	90	Germany: 3 western zones ex-		
Greece.....	55	70	cluding the Saar.....	28	35
Italy.....	51	75	Saar.....	35	45
Netherlands.....	75	90	Turkey.....	( <sup>2</sup> )	( <sup>2</sup> )
Norway.....	100	115	Iceland.....	( <sup>2</sup> )	( <sup>2</sup> )

<sup>1</sup> Year's rate estimated on basis of first half (in several cases, including the Saar, these figures must be treated only as rough estimates).

<sup>2</sup> Not available.

<sup>3</sup> Possibly more, 110.



But agricultural production is still far below prewar levels because of shortages of fertilizer and the depletion of the land and the extremely unfavorable weather conditions in western Europe and north Africa over several of the postwar years. The gap between the amount of production needed to assure European recovery, however, is not to be measured in terms of achieving once more the prewar volume. There is so great a necessity for rehabilitation and for replacing worn-out and obsolete equipment and for increasing exports to take care of an increased population that large percentage increases will be demanded to achieve the necessary levels of exports to each other and to the former markets of Europe which lay in the colonial areas, the Middle East, Latin America, and the Far East, as well as the United States.

Recovery is a slow process up to the point where a balance can be achieved that will provide goods for use against currencies. There is no other way to achieve stabilization of currencies than to have the necessary production. But production is a cumulative process and its momentum beyond a certain point is rapid. Funds that have been withheld through being hidden in foreign securities, often through disguised ownership, and hoardings of gold and other assets come out when there are opportunities for profitable investment and confidence is restored. The gold hoardings held in France are estimated by the Bank of International Settlements at Basle to be above \$3,000,000,000, and although other countries are not such notorious hoarders, the same process of concealment has been going on. It has been the uniform experience that after a period of stabilization such as Poincaré secured for the franc in 1926, these holdings enter into circulation once more and the recovery of the country is greatly speeded.

### *Progress*

European shortages of food and fuel and dollars are absolute, but the continuing flow of essential aid has permitted production to rise to between 70 and 90 percent of prewar levels in most countries. More than that, the added stimulus of the appeal to European collaboration and self-help has shown marked and recent results in both economics and politics.

The best economic news from Europe is on coal production. British production has increased by 350,000 long tons a week since September, an increase of 9 percent in 2 months and of 15 percent since the summer. Production in the Ruhr has reached a level of 270,000 metric tons a day, up 20 percent from the summer and 13 percent from the peak reached last March.

Politically, the European air has been cleared of the illusion of Communist collaboration. The Communists lost their Cabinet seats in Italy in April and in France in May. The Socialist parties of all countries are moving away from their former alliances with communism. The electorate is showing that it understands the necessity of isolating and reducing Communist strength.

The great deficits of Europe are after all in foodstuffs and raw materials, many of which are capable of being provided by more efficient domestic cultivation (with better weather) and by the products of the colonies which many of the western European countries possess.

The operation of the rescue of Europe, therefore, from chaos and the imminent threat of communism which is the residuary legatee of misery



is not a hopeless one. In this area live over 200,000,000 of the most advanced peoples of the world who have had long experience with democratic institutions and who cherish freedom. Their cultural and scientific achievements as well as their free institutions have contributed greatly to the development and security of the United States. If they can be aided to a closer cooperation, they constitute as powerful a block of nations as exists in the world, not excluding Russia or the United States.

The reduction of Germany to a smaller power and one under constant surveillance has established the conditions for a true balancing of European internal powers and for the gradual building of effective economic cooperation and political stability. The impact of Russia on this system must be arrested during the period of its weakness so that Europe can grow strong once more. That Russia is fully aware of this danger to her plans for extending communism over the entire world is apparent from the desperation of her present tactics and the fear that is evident in all Russian opposition to the program of European recovery.

The unfavorable factors have been so powerful that the large scale of aid given by the United States in the past must be continued. There are some who question whether the past aid has accomplished anything, and whether future aid will not be wasted. To those it can be said that the favorable results of post-UNRRA aid are visible and concrete and that the scale of the problem can now be seen in its real proportions as it could not in the past.

#### MILITARY ASPECTS OF THE SITUATION IN EUROPE

The impact of Communist antagonism to the recovery of Europe under democratic auspices, especially in France and Italy, has reached the point at which an examination of the military forces in Europe is pertinent.

This committee is not a military committee, but because of its importance in considering this bill, we believe it will be helpful to present to the House the estimates furnished at the committee's request, by the War Department, of the strength and disposition of Soviet armed forces.

Total Soviet armed forces are 4,050,000 divided roughly as follows:

Divisions.....	175
Ground forces.....	2, 600, 000
Air forces.....	450, 000
Navy.....	600, 000
Security troops (MVD).....	400, 000
Total.....	4, 050, 000

Over-all dispositions, Soviet Army and security troops:

	Strength	Divisions
Western U. S. S. R.....	1, 114, 000	56
Occupied Europe.....	588, 400	43
Total in west.....	1, 702, 400	99
Southern U. S. S. R.....	480, 000	24
Soviet and occupied Far East.....	483, 000	30
Interior U. S. S. R.....	334, 600	22
Total.....	3, 000, 000	175



Total Army and security forces, Soviet satellite states (8 states), 1,121,600; divisions 100 (presently of limited combat effectiveness).

Ground forces free European states, 2,879,000; divisions 104. (Dispersed through 12 different nations.)

Figures include security troops if militarized but excludes colonial troops. Figures include Turkey and Greece.

United States forces, Europe and continental United States:

	Strength	Divisions
Europe.....	113,000	1
United States.....	258,000	2½

Soviet and European air forces:

Area	Aircraft	Air force personnel
Soviet.....	<sup>1</sup> 14,000	450,000
Satellite (8 countries).....	<sup>2</sup> 3,050	42,000
Free European countries, including Turkey and Greece.....	<sup>1</sup> 5,100	537,000

<sup>1</sup> In units.

<sup>2</sup> Total.

The above figures have not been broken down into geographic areas. The great mobility and flexibility of air power enable a country to achieve mass concentrations of aircraft and air units in a very short period of time. Consequently, a further break-down on a geographical basis is a misleading presentation of air strength.

The Soviets have a clear and definite policy of attempting to prevent American aid to Europe or Asia, and a further policy of making such aid as ineffective and expensive as possible. This plan should not deter us from rendering necessary aid. On the other hand, we must not fall into the Soviet trap of bleeding ourselves white economically through extended, expensive and ineffective aid plans. We should plan our aid to other countries so as to remain strong at home, while strengthening free nations for all eventualities. The interim aid proposed by our committee is consistent with this policy.

#### CHINA

The case for immediate aid to China has not yet been presented by the administration. However, substantial testimony was given by Secretary Marshall, Under Secretary Lovett, and other witnesses concerning the needs of China, and the committee had available the work of its own team consisting of Congressman Walter H. Judd assisted by a staff consultant.

In his statement on November 10, Secretary Marshall said:

The situation in China continues to cause us deep concern. The civil war has spread and increased in intensity. The Chinese Communists by force of arms seek control of wide areas of China.

The United States and all other world powers recognize the National Government as the sole legal government of China. Only the government and people of China can solve their fundamental problems and regain for China its rightful role as a major stabilizing influence in the Far East. Nevertheless we can be of help and, in the light of our long and uninterrupted record of friendship and international cooperation with China, we should extend to the government of China and its people certain economic aid and assistance. A definite proposal is under preparation for early submission.



It was made plain to the committee that the case of China, though different in many ways from that of Europe, is no less urgent and no less important to world peace and to the security of the United States, since China represents a mass of humanity far greater than Europe, though far less productive, and it commands the opposite shore of the Pacific as Europe does that of the Atlantic. China is not, like Europe, on the upgrade. Chinese recovery still has to commence, and according to testimony considered by the committee to be valid, Chinese morale is close to break-down.

It is the committee's belief that it is important to provide an aid program to prevent serious economic retrogression in China that would jeopardize any general economic recovery program that might be adopted. The testimony indicates that China cannot solve her fundamental problems without help from the United States any more than can France and Italy. It is as true of China as it is of Europe that—

it will do little good to discuss the merits of a recovery program if in the meantime political and economic conditions have deteriorated to a point where such a program could not possibly succeed.

The committee therefore judged it wise, especially with consideration of timing, that aid to China should be authorized immediately. Accordingly China has been included as one of the countries to be aided under this bill and for that purpose the amount of the appropriations authorized was increased by \$60,000,000.

The scale required for aid to China is relatively small. Rather than a lack of basic commodities in short supply in the United States, China's most urgent needs are for assistance in balancing her international payments, stabilizing her currency, and starting the development of certain sound reconstruction projects, such as rehabilitation of destroyed or disrupted railroads, public utilities, textile industries, improvement of waterways and harbors, etc.

Estimates of aid to China run to \$20,000,000 per month. In order to get the maximum benefit, both psychological and economic, the committee believes that such aid as may be worked out for China should be started as soon as determined upon.

This bill makes it possible for the Committee on Appropriations and the Congress to provide funds for aid to China just as soon as specific recommendations are presented by the Department of State, which Secretary Marshall has indicated will be before the Congress convenes in regular session in January 1948.

#### NEED FOR IMMEDIATE ACTION ON AID

The factors that have produced the immediate requirements for action have been underlined previously so far as the steps leading to the calling of the Congress by the President are concerned. The appendix of the report will illustrate the exhaustion of dollar reserves by both France and Italy. More extensive studies are available through the reports I and II (The Italian Crisis and Interim Aid, The French Crisis and Interim Aid) of the Select Committee on Foreign Aid, the Secretary of State's presentation for interim aid for Europe (published in a committee print, The European Recovery Program), and in the Staff Report on The Interim European Aid Program. It is necessary, therefore, only to summarize the situation.



The progress of the dollar shortage in the European countries has been as predicted. These countries will very soon feel the impact of shortages that will cripple their economic life unless they receive aid. At the same time the drive of the Communists in France and Italy has reached the brink of civil war. Whether the Communists hope or intend to seize power, or merely intend to cause the maximum economic reverse is immaterial. In either case it intensifies the reasons why the aid is needed. Much more it intensifies the importance of timing.

When the aid program was presented certain consequences of failure could be anticipated. The present situation would greatly increase the adverse consequences of delay.

Aid for China, as indicated elsewhere, seems also a matter of great urgency. The evidence on the Chinese situation presented to the committee convinced it that China is rapidly approaching the time when aid would be too late.

#### COMPLIANCE OF REPORT WITH RAMSEYER RULE

Section 16 of this bill amends clause 1 of the first paragraph of section 1 of the act of March 31, 1947 (Public Law 84, 80th Cong.).

In accordance with clause 2-A of rule XIII of the Rules of the House of Representatives, there is included in this report the text of clause 1 of the first paragraph of section 1 of the act of March 31, 1947, the repealed wording being shown by inclusion within heavy brackets:

(1) To constitute more than 57 per centum of the aggregate amount contributed to said fund by all governments [not receiving assistance from said fund], including the United States;

