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The Role and Effect
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THE ROLE AND EFFECT OF THE ECONOMIC
COOPERATION ADMINISTRATION COUNTERPART FUNDS

By
Bernard F. Sliger

A THESIS

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CHAPTER I

HISTORICAL BACKGROUND OF THE COUNTERPART FUNDS

Upon the termination of hostilities in Europe on May 8, 1945 it was readily agreed by statesmen in the United States that some sort of aid was going to be needed by Western Europe to enable her to regain anything resembling her former self.

After practicing short term, stop gap, emergency measures without any great amount of success, the United States decided that an over-all plan or project was needed that would make Europe self-supporting and independent within a limited period of time.

With this self-supporting and independency role for Europe in mind Secretary of State George C. Marshall, at a commencement address at Harvard University on June 5, 1947, brought forth the original idea of the Marshall Plan or European Recovery Program. In his speech at Harvard, Secretary Marshall said:

It is the business of Europe jointly and on their initiative to draw up a program designed to place Europe on its feet economically. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such program so far as it may be practical for us to do so.¹

¹ New York Times, June 6, 1947, p.2.

* This suggestion of Marshall's was taken up immediately by France and England, and they quickly drew up plans for a conference to be held in Paris. The Soviet Government considered the proposal in the light that it would lead to interference in the affairs of European countries, thus they rejected the plan.²

England and France sent out invitations to all the remaining European countries except Spain and Germany to participate in a conference to be held in Paris for the purpose of preparing a comprehensive statement of European resources, immediate needs, and methods of reaching the future goal of self sufficiency. Seventeen countries accepted the invitation and were on hand when the conference convened.³

The Paris Conference outlined a broad recovery program for the European nations and prepared a report indicating a need of twenty-nine billion dollars in American aid from 1948-1952.⁴ This figure was thought to be quite high by

B² 1948 Brittanica Book of the Year, Chicago, 1948, p.463.

3 Czechoslovakia withdrew after it had accepted the invitation and none of the other satellite powers of Russia sent representatives. The sixteen participating nations at the Conference were England, France, Italy, Belgium, Ireland, Iceland, Luxembourg, Austria, Denmark, Greece, Norway, the Netherlands, Portugal, Sweden, Switzerland and Turkey. Ibid.; pp.287-88.

B⁴ "Building the Peace," Department of State Publication 2954, August, 1947, p.3.

American observers, and thus a new report was prepared and presented by the Conference. This new report called for a total of \$19,300,000,000 of American aid and it was eventually agreed upon.⁵

With the Paris Conference report in mind President Harry S. Truman in his annual message to Congress on January 7, 1948, recommended that the United States underwrite a four-and-a-quarter year program of European Recovery, "backed by a commitment to furnish seventeen billion dollars in United States aid."⁶

After meeting a considerable amount of opposition and hostility in the Houses of Congress, the Foreign Assistance Act or Economic Cooperation Act passed and on April 4, 1948, President Truman signed it into law.⁷ 7

With the Marshall Plan idea now formally encompassed into law the next big step was to find responsible men who could operate it. For the job of Administrator of the "plan" Mr. Truman selected Paul G. Hoffman, head of the Studebaker corporation, and for the special agent to Europe, who was to head the Economic Cooperation Administration mission abroad

⁵ Ibid., p.4.

⁶ 1949 Brittanica Book of the Year, p.278.)

⁷ The official title of the act is the Foreign Assistance Act of 1948 (Public Law 472, Eightieth Congress).

he chose W. Averill Harriman, until then Secretary of Commerce.⁸ In addition to these two top appointments there was established the central machinery in Washington D.C.; the setting up of the European headquarters in Paris; and the establishment of the Economic Cooperation Administration mission in each country.

With the establishment of the above mentioned machinery the United States was able to start the program of attempted recovery for Western Europe.

Among the numerous measures of the Foreign Assistance Act that the United States is using to assist in the recovery of Western Europe one of the most far-reaching is the so called "Counterpart Fund."⁹ To most Americans these words

⁸The act called for a European Cooperation Administration headed by an independent twenty-thousand dollar a year administrator who was to have broad authority to rule on the requirements of the sixteen participating nations, and to outline the United States assistance programs. The act also provides for a special agent in Europe with the rank of ambassador, and acting as the Chief United States representative to any organization of the participating nations.

⁹The principal provisions of the European Recovery Program in addition to those mentioned elsewhere in the paper are: (1) requires each participating country to sign an agreement with the United States on aid terms and a pledge on the part of each nation to make an all out effort to accomplish a joint recovery program based on self help and mutual cooperation; (2) authorizes a four-and-a-quarter year program of economic assistance but does not make any funds promises beyond one year; (3) declares that no assistance is planned which would upset the economic stability of the United States; (4) states that continuing United States aid depends on the continued cooperation among the participating nations.

not only have a dull sound, but in addition have very little meaning. However, since the counterpart fund is one of the most important and widely used methods employed by the Economic Cooperation Administration in its attempt to restore a sound world economy, it merits general attention.

The question of who conceived the device, whereby "each country participating in the European Recovery Program and receiving assistance in the form of grants from the Economic Cooperation Administration has agreed to deposit its own local currency in a special account in an amount commensurate with dollar cost of the grant received,"¹⁰ and known as the Counterpart Fund is impossible to answer with any degree of finality. There is evidence, however, showing that the Department of State of the United States government and the economists of the Lend-Lease Administration had a hand in its conception.¹¹

The first known mention of the counterpart fund idea goes back to the initial discussions of lend-lease in 1940. When the discussions that lead to the Lend-Lease Act of 1941 were in progress, the suggestion was made that this country should require the lend-lease recipients to deposit in

¹⁰ Economic Cooperation Administration, Local Currency Counterpart Funds, June 30, 1948, p.1.

¹¹ New York Times, November 9, 1948, p.26.

special accounts local currencies equal to the value of civilian goods received from the United States.¹² This counterpart suggestion did not survive due to the fact that both Britain and Russia, the two principal recipients of lend-lease aid, were engaged in an all out war at that time and it was not possible to discern between military supplies and civilian goods.¹³ Thus, the counterpart idea was to lie dormant until revived by the United Nations Relief and Rehabilitation Administration two years later.

The United Nations Relief and Rehabilitation Administration, established on November 9, 1943 was an international organization comprising forty-eight United Nations. It was created for the purpose of providing aid to the victims of

¹²The "Lend-Lease Act" was passed on March 11, 1941, and was entitled, "an Act Further to Promote the Defense of the United States." This act entitled the President of the United States to lend "defense articles" to governments "whose defense he deems vital to the defense of the United States."

In most cases the allied countries that received lend-lease goods, and used them in the prosecuting of the war, received them as outright gifts.

Before World War II was over the United States had supplied allied countries with fifty billion dollars worth of goods and services under lend-lease.

For most purposes lend-lease expired on June 30, 1946, however, we did have a few commitments which were not taken care of until the latter part of 1946. see 1947 Britannica Book of the Year, pp.455-57; the portion in quotes is taken from S.S. Jones and D.P. Myers, eds., Documents on American Foreign Relations, Boston, 1941, III, 712.

¹³New York Times, November 9, 1948, p.26.

World War II in the liberated areas. || stop

The United Nations Relief and Rehabilitation Administration concentrated on aiding those nations which had the greatest need and in addition lacked the foreign exchange resources necessary to finance the relief imports they required. The greatest portion of aid consisted of the utmost necessities of life such as food, clothing, fuel and medicine. In addition to these relief supplies there were numerous rehabilitation goods extended such as fertilizers, insecticides and basic farm tools. A third large portion of United Nations Relief and Rehabilitation Administration funds was spent for the care and repatriation of innumerable displaced persons.¹⁴

But the question remains to be answered as to how the United Nations Relief and Rehabilitation Administration revived the counterpart fund idea. The answer is that under the United Nations Relief and Rehabilitation Administration agreements it was stipulated that:

Governments not in a position to pay in suitable means of foreign exchange for necessary relief and rehabilitation supplies or services make available to the administration in whole or in part the local currency proceeds from the sale of supplies furnished by the administration.

Further stipulations were that these funds or proceeds could

¹⁴ 1948 Brittanica Book of the Year, pp.752-53.

only be spent to assist relief and rehabilitation and that the United Nations Relief and Rehabilitation Administration be kept informed of their use.¹⁵

The idea behind the use of the counterpart fund under the United Nations Relief and Rehabilitation Administration was that it should serve as an anti-inflationary device. Due to the fact, however, that the local currency funds were expended immediately in the relief receiving country, and because of the lack of control over relief expenditures, the anti-inflationary results were not realized.¹⁶

With the United Nations Relief and Rehabilitation Administration, and with it the counterpart fund idea, coming to an end in 1947, it was clearly recognized that some sort of stop gap aid would be needed to carry the European nations through the greater part of 1947 and even into the spring of 1948 when it was hoped that an effective long range recovery program would be implemented.¹⁷

The first form of stop gap emergency aid implemented to take over where the United Nations Relief and Rehabilitation

¹⁵Leland M. Goodrich, and Marie J. Carroll, eds., Documents on American Foreign Relations, Boston, 1945, VI, 275.

¹⁶New York Times, November 9, 1948, p.26.

¹⁷The United Nations Relief and Rehabilitation Administration completed its program of post war aid in 1947. 1948 Brittanica Book of the Year, pp.752-53.

Administration left off was the Greek-Turkish aid bill passed by Congress and signed by Truman on May 22, 1948.¹⁸ This assistance to Greece and Turkey, however, had no counterpart fund stipulation in it.

There was an emergency relief bill soon to appear on the congressional horizon, however, that did contain the counterpart fund clause. Within twelve days after President Truman's signing of the Greek-Turkish aid bill Congress passed a joint resolution providing for relief assistance to the people of countries devastated by war. In this joint resolution it was resolved that the sum not to exceed \$350 million be allocated to the President in order that he might provide relief assistance to the people of countries devastated by war. The assistance received by the needy countries was to be limited to such ~~items~~ as food, medicinal supplies, clothing, fuel, fertilizer, pesticides, and seed.¹⁹

A further provision of this joint resolution was that there was to be set up in each of the countries receiving aid under this bill a relief distribution mission. This relief

¹⁸The Greek-Turkish aid bill provided for a grant of \$350 million to Greece, and one of \$100 million to Turkey. The appropriated money was to be spent for military aid and essential rehabilitation projects. 1948 Brittanica Book of the Year, pp.7, 354, 741.

¹⁹United States Statutes at Large, Eightieth Congress, Second Session, Vol. 62, Part I, p.125.

distribution mission was to be operated solely by loyal American citizens. It was in conjunction with this relief distribution provision that the counterpart fund idea was revived.²⁰ Section 6 of this Joint Resolution provided that countries receiving relief supplies as an outright gift, with no obligation to repay in dollars, should, upon sale of those relief goods, put the local currency which they received from the transaction into a special account to be used only for purposes stipulated by the United States. The United States stipulated in Section 6 (b) that the special account mentioned above could only be used "for relief and work relief purposes, including local currency expenses of the United States incident to the furnishing of relief." A second control the United States had over the special account was that the funds could only be used by the recipient country upon approval by the duly authorized representative of the United States.²¹

Although the counterpart section of this Joint Resolution of May 31, 1947 was more realistic than its predecessor in the United Nations Relief and Rehabilitation Administration, it was still not too successful. The big drawback of Section

²⁰Ibid.

²¹Ibid., p.128

6 (b) in the Joint Resolution bill was that it was found almost impossible to discover how much of the relief supplies were sold and how much were given away. If the United States did not know whether a particular allotment was sold or given away then it would be very difficult to determine how much local currency should be put into the counterpart fund. A second criticism of the counterpart idea as a part of the Relief Assistance resolution of 1947 was that very few of the recipient countries made any attempt to determine what a fund commensurate with the value of the aid provided should be. Thus, it was difficult to determine whether the relief supplies were having an inflationary effect or whether they were tending to curb inflation.

With the sands of time running out on the Foreign Assistance Resolution pressure was put on Congress to pass a new emergency aid measure.²² In fact both President Truman and Secretary of State Marshall made speeches during the fall months of 1947 asking Congress to implement stop gap assistance to the European nations so as to enable them to struggle through the winter months until the much needed major recovery program could be launched, sometime in the spring

²² The Joint Resolution of May 31, 1947, provided that no aid or credit could be allotted after June 30, 1948. United States Statutes at Large, Eightieth Congress, Second Session, Vol. 62, Part 1, p.125.

of 1948.²³

The pressure that was put on Congress during the fall of 1947 began to bear fruit, for in December Congress passed the Foreign Aid Act of 1947, popularly known as the Interim Aid Act. This act provided for \$522 million worth of relief assistance to Austria, France and Italy.²⁴

In addition to other provisions, one of the big features of this Interim Aid Act was the role that the counterpart fund was to play. With the lessons learned from both the United Nations Relief and Rehabilitation Administration and the Joint Resolution providing for relief assistance, Congress gave the counterpart funds an even larger role in this Act. It was still felt, however, that the Counterpart Fund portion of the Act was not specific enough. Thus, when the Interim Aid Act ended March 31, 1948 and the long awaited major recovery effort known as the Foreign Assistance Act of 1948 came into being some further additions to the Counterpart fund idea were made.²⁵

²³Raymond Dennett, and Robert K. Turner, eds., Documents on American Foreign Relations, Princeton University Press, 1949, IX, 197.

²⁴China was also to get \$18,000,000 under this Act.

²⁵In order to compare and contrast the relevant sections of the two acts — the Foreign Aid Act of 1947 and the Foreign Assistance Act of 1948 — the sections dealing with the counterpart funds are quoted in their entirety. Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress). Sec. 5 (b) For each recipient country "to make, when any commodity

One of the additional provisions of the counterpart section of the Foreign Assistance Act provided that not less than five per cent of each country's special local currency

which is not furnished on terms of repayment in dollars is made available under this act, a commensurate deposit in the currency of such country in a special account under such general terms and conditions as may, in such agreement, be agreed to between such country and the Government of the United States, and to hold or use such special account for, and only for, such purpose as may be agreed to between such country and the Government of the United States, and under agreement by the government of the receiving country that any unencumbered balance remaining in such account on June 30, 1948, will be disposed of within such country for such purposes as may, subject to approval by Act or joint resolution of the Congress, be agreed between such country and the Government of the United States."

Foreign Assistance Act of 1948 (Public Law 472 Eightieth Congress). Sec. 115 (b) (6) "Placing in a special account a deposit in the currency of such country, in commensurate amounts and under such terms and conditions as may be agreed to between such country and the Government of the United States, when any commodity or service is made available through any means authorized under this title, and is furnished to the participating country on a grant basis. Such special account, together with the unencumbered portions of any deposits which may have been made by such country pursuant to section six of the joint resolution providing for relief assistance to the people of countries devastated by war (Public Law 84, Eightieth Congress), and section 5(b) of the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress), shall be held or used within such country for such purposes as may be agreed to between such country and the Administrator in consultation with the National Advisory Council on International Monetary and Financial Problems, and the Public Advisory Board provided for in section 107 (a) for purposes of internal monetary and financial stabilization, for the stimulation of productive activity and the exploration for and development of new sources of wealth, or for such other expenditures as may be consistent with the purposes of the title, including local currency administrative expenditures of the United States incident to operations under this title, and under such agreement that any unencumbered balance remaining in such account on June 30, 1952, shall be disposed of within such country for such purposes

funds should be made available to the United States for expenditures on strategic materials where they were available or for other local currency requirements of the United States.²⁶

Contrasting the overall tenor of the counterpart sections of the two acts, the Foreign Aid Act of 1947 and the Foreign Assistance Act of 1948, it is easy to see that the big difference lies in the fact that the latter attempts to spell out the purposes for which the deposits might be used, while the former spoke in more general terms.

Since the passage of the Foreign Assistance Act in April of 1948, there have been several attempts to amend certain portions of the counterpart sections of the Act. Among them were two proposals made in April 1949 by Senator Allen J. Ellender of Louisiana. His first suggestion was to increase to twenty-five per cent the amount of counterpart funds abroad that would be made available for strategic materials

as may subject to approval by Act or joint resolution of the Congress, be agreed to between such country and the Government of the United States." For the Foreign Aid Act of 1947, see United States Statutes at Large, Eightieth Congress, First Session, Vol. 61, Part I, p.936. For the Foreign Assistance Act of 1948, see United States Statutes at Large, Eightieth Congress, Second Session, Vol. 62, Part I, pp.151-52.

²⁶
Ibid., p.1055.

purchased by this country. The original law stipulated that five per cent of the funds should be available for that purpose. A second suggestion advanced by the same Senator would have prohibited the use of such counterpart funds by recipient governments for the purpose of public debt retirement.²⁷ Both proposals were defeated in the Senate by comfortable margins.²⁸

The next attempt at revision was made by Senator Fulbright of Arkansas and would have required recipient countries to set aside fifty per cent of their counterpart funds for the removal of trade and payments restrictions within Europe. The idea suffered the same fate as its two predecessors in that it was rejected by a decisive vote in the Senate. The objection that the Senate and the Economic Cooperation Administration had to Fulbright's proposal was that they did not think that some of the participating countries could wisely devote as much as half of their counterpart funds to trade liberalization projects.²⁹

A fourth attempt to alter the counterpart fund provision was made in May 1950, by Senator Wherry of Nebraska. The gist of Wherry's proposal was that the counterpart funds of

²⁷New York Times, April 3, 1949, p.10.

²⁸Ibid., April 6, 1949, p.26.

²⁹Ibid., March 16, 1950, p.11.

countries discriminating against American business would be impounded.³⁰ As in the first three attempts at amendment this idea was also turned back.³¹

It is easy to see that the counterpart fund idea as set up in the Economic Cooperation Administration Act of 1948 was neither original to that act nor altogether new. As one of our greatest historians once said, the story of history is an unbroken narrative, and everything that happens is the outcome or outgrowth of incidents that preceded it.³²

With this background of incidents leading up to and the final evolution of the counterpart fund in its present form the next problem to be posed is what are the mechanics of the counterpart fund device. This is the subject of the next chapter.

³⁰Senator Kenneth Wherry, the Republican floor leader, instigated this proposal with the idea that if it passed the United States could invoke sanctions against recipient countries who were using import licenses and other restrictive measures "to discriminate against American exporters or products, as such." See New York Times, May 6, 1950, p.2; Ibid., May 12, 1950, p.9.

³¹Ibid., May 6, 1950, p.2.

³²Edward P. Cheney, Law in History and Essays, New York, 1927.

CHAPTER II

THE MECHANICS OF THE COUNTERPART FUND

These questions often arise when the subject of mechanics of the counterpart funds is approached: (a) Under what conditions are countries, receiving aid under the Marshall Plan Act, required to put local currency into the so called "counterpart fund," and (b) Are there conditions under which countries are not required to put local currency into the special account?³³

The answer to the first question is that every country participating in the European Recovery Program and receiving aid in the form of grants must for every penny's worth of goods received in this manner put into a special account an equivalent amount of their own local currency. This special account of local currency commensurate to the value of grant-aid received is known as the "counterpart fund." To use the words of Senator Arthur Vandenberg:

Local currencies must be deposited by each beneficiary country to offset the value of any aid not furnished on terms of [re] payment. The beneficiary country and the United States will agree on the local expenditure of these local currency accumulations in behalf of the purposes of this act [Foreign Assistance Act of 1948]. Thus our grants will not become a budgetary windfall in the

³³"local currencies," as used in this paper, are determined by using a conversion rate set up by the International Monetary Fund, and the rate is either the par value agreed to by the Fund or else a rate agreed to by the Economic Cooperation Administration and the recipient country.

beneficiary country but will virtually become a revolving fund to do double duty in behalf of the act's objectives.³⁴

Under the Foreign Assistance Act of 1948 countries also receive aid from the United States in the form of loans or conditional aid. When this is the case no deposit into the counterpart fund is required. In other words the deposit of local currency in the special account known as the counterpart fund is necessary only in the case of direct grants, but not in the case of repayable loans or for conditional aid. In the case of loans the qualifying factor is the guarantee to repay the United States in dollars at some later date. As for conditional aid the country that receives the goods must in turn make aid of an equal amount available to a third country in the form of drawing rights; thus the country receiving conditional aid is not required to put any currency into the special account. However, the particular third country that receives the privilege to use these drawing rights must agree to deposit a commensurate amount of local currency into her own counterpart funds.

Therefore, we find two cases in which the deposit of local currency in counterpart funds is mandatory for the country receiving aid, first under direct grants and secondly for drawing right utilized under the intra-European

³⁴Congressional Record, Eightieth Congress, Second session, p. 1920 (March 1, 1948).

payments plan.³⁵

What determines whether a "participating" country should receive a grant or a loan? In determining whether a country should receive a grant or loan it was decided that the decision should be based on the ability of the recipient country to repay and the effect the additional external debt would have on the borrowing country's economy. To quote from a statement made by Paul G. Hoffman, when he was Chairman of the Committee for Economic Development and just prior to his appointment as Administrator for the Economic Cooperation Administration:

Insofar as possible, loans should be truly loans; currency transactions should be currency transactions; and gifts should be gifts. Some European countries can pay for all their import requirements; others can meet their requirements through exports plus loans that can ultimately be repaid. But other countries have needs so great, or debt burdens already so heavy, that they will be unable to repay loans. In such cases the goods should be supplied as gifts. We recognize that they would ordinarily be sold by the governments in question to their own nations and paid for in local currencies. It is our proposal that the proceeds of these sales should be segregated and used for the benefit of the country involved upon mutual agreement between that country and the United States.³⁶

In other words, would the debt hurt the recipient countries chances of recovery? It is not desirous that countries

³⁵The intra-European payments plan, signed by the participating countries on October 16, 1948, was designed with the idea of bringing about mutual aid among the participating countries and by so doing enable them to acquire equilibrium in their balance of payments. (For a more complete discussion of the Intra-European Payments Agreement see Ch.4).

³⁶Statement by Paul G. Hoffman, Hearings Before the Committee on Foreign Relations, United States Senate, Eightieth Congress, Second session, p.849 (January 23, 1948).

contract additional dollar debts which will absorb so much of their dollar earnings as to operate to the disadvantage of their future trade and private investment. If the United States demanded that all the aid that Europe received was to be on a loan basis, it would be impossible for them to meet the principal and interest charges on the loans even after trade and investment had returned to normal. In practice it was felt that:

Where need is clearly demonstrated and where repayment cannot be reasonably expected, imports of supplies which are quickly consumed, such as food, fertilizer and fuel, or indispensable items of capital equipment for immediate replacement and repair and of essential raw materials should be financed by means of grants.³⁷

However, the exact determination in every case, as to whether a participating country's aid should be provided in the form of a loan or in the form of an outright grant, is decided by the Economic Cooperation Administration in consultation with the National Advisory Council.³⁸

Questions as to exactly how soon the recipient country should deposit local currency in its special account for grant aid received are very difficult to answer. According

³⁷Statement by George C. Marshall, Hearings before the Committee on Foreign Affairs House of Representatives, Eightieth Congress, First Session, p.5, (November 10, 1947).

³⁸Statement by George C. Marshall, Hearings before the Committee on Foreign Relations United States Senate, Eightieth Congress, Second Session, p.8 (January 3, 1948).

to the Bilateral Agreements³⁹ recipient countries have agreed to deposit commensurate amounts of local currency "promptly after notification by the Economic Cooperation Administration of the amounts of dollar aid disbursed."⁴⁰ In actual practice, however, the deposit in the local counterpart fund takes place sometime after the United States authorizes the grants due to the fact that the countries wait until the Economic Cooperation Administration has actually spent dollars. This may be at a considerably later date than the announcement that an authorization has been made.⁴¹

What is the procedure whereby local currency is put into the counterpart fund? The first thing that should be understood is that the Economic Cooperation Administration does not do any procuring itself, it is primarily a financing agency.

³⁹The Economic Cooperation Act required besides continuous mutual cooperation on the part of the participating countries certain other stipulations on the part of each country. These stipulations are contained in the form of bilateral agreements between the participating country and the United States. By the end of October, 1948, eighteen different areas had concluded their bilateral agreements. The areas with which agreements have been made are: Austria, Belgium, Bizone of Germany, Denmark, France, French Zone of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Trieste (United States-United Kingdom Zone), Turkey and the United Kingdom (for a more complete discussion of Bilateral Agreements see European Cooperation Administration, A Report on Recovery Progress and United States Aid, Washington D.C., February 1949, pp.154-57).

⁴⁰Economic Cooperation Administration, Local Currency Counterpart Funds: Midpoint Review, April 1950, p.iii.

⁴¹New York Times, October 24, 1948, IV, p.4.

The Economic Cooperation Administration, four months before the beginning of a calendar quarter, reviews all the material relating to the current status of the Office of European Economic Cooperation's Annual programs and also the latest material put out by the Economic Cooperation Administration in Washington, the Office of the Special Representative in Paris, and the respective Economic Cooperation Administration Country Missions. On the basis of this material the Economic Cooperation Administration establishes for each participating country a dollar allotment to cover the financing of goods and services to be delivered in the quarter concerned. "These quarterly allotments are installments on the annual allotments for the fiscal year as recommended by the OEEC and approved by the ECA."⁴²

After the dollar allotments have been made to each country, within one month each participating country submits to the Economic Cooperation Administration mission in their country and to the Economic Cooperation Administration in Washington an application for "procurement authorization to cover the commodities and services which it desires to have financed with its dollar allotments."⁴³

⁴²A Report on Recovery Progress and United States Aid, February 1949, p.107.

⁴³Ibid.

Sixty days before the beginning of each quarter, and after they have received the procurement application recommendations from the Economic Cooperation Administration country missions the Economic Cooperation Administration commodity branches in Washington, in consultation with the Program Coordination Division, determines the dollar amount of the various commodities and issues procurement authorizations. This authorization specifies "a dollar amount authorized for the purchase of commodities or services . . . during a specified quarter from a specified area of source."⁴⁴

When the participating country receives the procurement authorization it then makes sub-authorizations to its importers. After the sub-authorizations are made, the transactions for the most part move through the normal commercial trade channels, however, in some instances an agency within the participating country may do the procuring rather than a private importer.

It should be understood, however, that the making of a quarterly allotment to a participating country by the Economic Cooperation Administration does not "constitute a commitment of ECA funds." Nevertheless it does have a

⁴⁴Ibid., p.105.

great deal of importance "in the programming work of the agency and of the participating countries," and it is "the sum of money which governs the value of the procurement authorization which will be issued to a participating country each quarter." In other words it is upon these authorizations that the Economic Cooperation Administration's financial commitments are based.⁴⁵

Now for those Economic Cooperation Administration financial commitments that are issued to a participating country in the form of a dollar grant, the United States requires them to deposit an equivalent amount of local currency into a special account. . . Therefore, even in the case of grants the participating countries do not receive the commodities financed by the Economic Cooperation Administration as outright gifts. The participating countries obtain the local currency that they are required to deposit in the counterpart funds by selling the goods to their own retailers, wholesalers, and importers at the going market price. Thus, the importers and ultimate consumers within a grant-aid recipient country pay for the European Recovery Program goods in their own money, whether it be lire, francs or shillings. This local currency obtained by the government from the importer is retained in the recipient country in the counterpart fund.

⁴⁵Ibid., p.109.

In some cases the currency obtained from the sale of goods financed by Marshall Plan dollars will not fulfill the requirement: that the receiving country must deposit local currency commensurate with the amount of basic dollar grants. In such cases the respective governments must make up the difference from their own coffers.

After the participating country has deposited the required amount of local currency, the Economic Cooperation Administration earmarks ninety-five per cent of the special account for the recipient country's use and five per cent for its own related needs.

Thus, the Economic Cooperation Administration counterpart funds are divided into two portions.⁴⁶ The smallest portion which is to consist of not less than five per cent of the special account funds is placed in a separate account under the control of the United States disbursing officers. These funds reserved for the United States are used for the stockpiling and production of scarce goods for the United States and to defray Economic Cooperation Administration administrative expenses payable in local currencies. In case a portion of the five per cent fund is not needed by the Economic Cooperation Administration it goes to the credit of the United

⁴⁶ See Ch. I., pp.13-14.

States Treasury to be used by other United States Government agencies within the recipient country concerned.⁴⁷

From the inception of the Economic Cooperation Administration program in April of 1948 through April 30, 1950, the separate account set up for the "five per cent funds" has accumulated the equivalent of \$246,700,000.⁴⁸ Statistics

⁴⁷Economic Cooperation Administration, Local Currency Counterpart Funds: First Annual Review, April 3, 1948 - April 2, 1949, p.1.

⁴⁸"Dollar equivalents," as used throughout this paper, are only an approximate measure of the magnitude involved in counterpart fund transactions. These transactions are always in the form of the local currency of the respective participating country and never in the form of dollars.

The local currency counterpart funds are put into the special accounts of the participating country at agreed rates in effect at the time the Economic Cooperation Administration allocated grant aid funds. Due to the fact that agreed deposit rates have fluctuated, portions of the local currency counterpart funds have been released at times when the conversion rate differed from the rate in effect at the time of deposit.

The withdrawal of counterpart funds made before the effective dates of devaluation have been converted into dollar equivalents at the average rates at which deposits were made. Dollar equivalents of withdrawals made after the application of new conversion rates stemming from devaluation have been computed at the conversion rates in effect at the time of withdrawal.

Therefore, since withdrawals occurring after devaluation have been computed at rates which may not correspond to the ones used when the counterpart funds were deposited, the dollar equivalents of deposits may not exactly coincide with the dollar equivalents of withdrawals (Dollar equivalents, as used in this report, are the same as used in the Local Currency Counterpart Fund literature put out by the Statistics and Reports Division of the Economic Cooperation Administration).

also show that approximately one third of the "five per cent" portion of the counterpart fund has been used by the Economic Cooperation Administration or transferred to the United States Treasury for use by other governmental agencies.⁴⁹

Of the portion of this five per cent share of counterpart funds that has been used for the purchase of strategic materials the majority has been spent in the United Kingdom, with lesser portions being spent in Italy, the Netherlands, France, Denmark and Norway (see Table I). The total amount actually spent for this purpose has been a little over \$40 million, with an additional \$21.5 million in the form of outstanding commitments.⁵⁰ With the money expended for this purpose, the United States has secured such material as rubber, sisal, industrial diamonds, platinum, sperm oil for high grade lubricants, tantalite for the manufacture of high resisting alloys, bauxite, palm oil, quinine, graphite, cryolite, and beryl. In certain areas this country has been hampered in securing strategic material because the natural resources of the participating country will not stand the strain.⁵¹

⁴⁹Local Currency Counterpart Funds, April 30, 1950, p.5.

⁵⁰Ibid.

⁵¹This is particularly true in Greece and Austria.

TABLE I
STATUS OF FIVE PERCENT FUNDS - UNITED STATES PORTION

STATUS OF UNITED STATES (5 PERCENT) PORTION OF EUROPEAN COUNTERPART FUNDS
UNDER THE FOREIGN ASSISTANCE ACT OF 1948 - PUBLIC LAW 472

AS OF APRIL 30, 1950
(Dollar Equivalent of the Local Currency, in Thousands of Dollars^{a/})

Country	U.S. Portion of Deposits	EXPENDITURES					Transfers to U.S. Treasury From ECA	Special Purposes b/	Outstanding Commitments For Strategic Mtls.
		Total	Adminis- tration	Strategic Mater- ials	Infor- mation Projects	Special Purposes			
Total	\$246,740	\$67,549	\$15,827	\$40,006	\$5,142	\$6,504	\$21,716	\$157,875	\$21,538
France	64,613	11,452	8,589	353	1,819	691	9,309	43,852	3,532
United Kingdom	62,288	30,502	1,227	29,162	113	--	--	31,735	13,280
Germany (Federal Republic)	23,942	2,005	905	--	1,100	--	--	26,937	--
Italy	24,940	13,695	1,894	5,531	1,253	5,012	2,400	8,845	384
Netherlands	20,579	5,272	1,402	4,792	77	1	--	15,307	3,983
Austria	15,802	1,936	531	--	609	796	4,400	9,466	--
Greece	13,406	1,217	1,171	--	46	--	4,000	8,189	--
Norway	7,753	302	288	3	31	--	272	7,179	--
Denmark	5,613	515	319	165	31	--	257	4,841	359
Turkey	932	214	201	--	9	4	--	713	--
Trieste	901	164	117	--	47	--	--	149	--
Portugal	415	49	48	--	1	--	538	276	--
Belgium-Luxembourg	303	162	161	--	1	--	90	141	--
Ireland	151	36	36	--	1	--	--	113	--
Iceland	102	23	23	--	--	--	--	74	--

^{a/} See fn. p.26 on "dollar equivalents."

^{b/} Deposits less expenditures and transfers.

Source: Local Currency Counterpart Funds, April 30, 1950.

In addition to the forty million spent on strategic material another \$15,897,000 of the five per cent fund has been spent to defray the administrative expenses of the office of the Special Representative and the Economic Cooperation Administration Missions in Europe.⁵² The largest part of this latter amount spent on administrative expenditures has gone toward paying the salaries of aliens, living allowances of American personnel overseas, travel, communication, rents and utilities, and the purchase of equipment and miscellaneous items.⁵³

After the United States has set aside its five per cent portion of the counterpart fund, the remaining ninety-five per cent belongs to the depositing country.

In accordance with the requirements of the Foreign Assistance Act of 1948, and as stipulated in each bilateral agreement, any participating country which is desirous of using a part of its fund must get the consent of the Economic Cooperation Administration. In actual practice the way this usually works is that the country which is desirous of obtaining a portion of its fund outlines a proposal for the

⁵²For the amount spent on Administrative expenditures within the various grant aid receiving countries see Table I.

⁵³Third Report to Congress of the Economic Cooperation Administration, Washington D.C., 1948, p.70.

expenditure of a certain amount of that fund. The proposal is first discussed by the participating country's government with the Economic Cooperation Administration mission in that country. The mission makes recommendations and forwards them to the Office of the Special Representative, in Paris, where the recommendations are reviewed. From here the recommendations go to the Economic Cooperation Administration in Washington where they are thoroughly aired by that organization in consultation with the National Advisory Council on International Monetary and Financial Problems. The matter is then brought to the attention of the Economic Cooperation Administration Administrator who is responsible for the final approval of the proposal.⁵⁴

The administrator usually grants approval of the proposal only after a careful review of the possible effects the use of the released funds might have on the economy of the participating nation.⁵⁵ There is one basic objective that the Economic Cooperation Administration officials keep in mind when they are attempting to decide on the use to which counterpart funds are to be put by a grant-aid recipient country. This factor is the extent to which the funds to be used will affect the internal monetary and financial situation of the country.

⁵⁴Ibid., p.42.

⁵⁵Ibid.

It is quite evident to the Economic Cooperation Administration that without internal stability a recipient country would have a very difficult job of regaining her former stature by 1952.⁵⁶ With this important factor in mind counterpart funds have been, for the most part, aimed at the promotion of those types of activities which will accomplish the greatest amount of economic recovery in the participating country.

Thus, there are three ways in which the counterpart funds can be used to stabilize the internal monetary and financial conditions of a participating country. First, they can leave the counterpart currency in the special fund thereby serving to counter inflationary tendencies by keeping a portion of the country's money supply, or purchasing power idle. A second way is to use the special account funds to retire the government debt held by the central bank. The third method is to allow the countries to invest their funds in productive industries which will allow more goods to be put on the market, and thus further alleviate the inflationary pressures. In regard to this third method it should be pointed out that this is the most precarious method of the three due to the fact that many investments may work toward neutralizing the effect of local currency funds rather than advancing recovery.

⁵⁶Local Currency Counterpart Fund, April 30, 1950, p.1.

For the reasons mentioned above the release of counterpart funds in areas where inflationary pressures have been strong has only been done in close cooperation with steps taken by the receiving country to aid in bringing about monetary and financial stability. However, in the light of these overall considerations, the Economic Cooperation Administration Administrator has allowed counterpart funds to be utilized for promoting production in key industries, in agriculture, and for the purpose of rehabilitating and modernizing existing plants that would aid in the overall production effort.⁵⁷ Also in some of the war torn countries where private capital is at a minimum the Administrator has allowed those funds to be used in order to increase the stock of capital equipment and thus their productive capacity.⁵⁸

The next step in the procedure, assuming the Administrator of the Economic Cooperation Administration has given the participating country permission to use a portion of the funds, is for the participating country to withdraw the funds from the local currency account and allot it to the various approved projects.

By April 30, 1950, participating countries had set aside in their special accounts the equivalent of \$5,914 million

⁵⁷Fourth Report to Congress of the Economic Cooperation Administration, Washington D.C., 1949, p.60.

⁵⁸A Report on Recovery Progress and United States Aid, February 1949, p.157.

to match grants furnished by the United States under the Foreign Assistance Act of 1948.⁵⁹ Along with this there was in addition \$610 million deposited in local currency under the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress) that was eligible for use by the countries.⁶⁰ Of the \$5,914 million deposited in the local currency funds the equivalent of \$5,098 million⁶¹ composes the ninety-five per cent portion. The Economic Cooperation Administration has approved \$3,975 million of this latter amount for withdrawal of which \$3,827 million has already been withdrawn.⁶²

As pointed out in the preceding paragraph the equivalent of \$3,827 million has already been approved and withdrawn by the participating nations from the counterpart funds (as of April 30, 1950). Of this amount \$2,203 million or fifty-eight per cent has been used for the promotion of production. The largest portion of this fifty-eight per cent has been spent on electrical energy, transportation and communication, utilities, extractive industries, agriculture, and manufacturing. In addition to the fifty-eight per cent

⁵⁹Local Currency Counterpart Funds, April 30, 1950, p.2.

⁶⁰Midpoint Review, p.1.

⁶¹This figure is the final adjusted dollar equivalent.

⁶²Local Currency Counterpart Funds, April 30, 1950, pp.3-4 (table).

expended for production promotion an additional \$1,114 million or twenty-nine per cent has been used for monetary and financial stabilization. The remaining \$621 million (thirteen per cent) has been used for such projects as construction of public building and housing facilities, special relief projects and payments to German exporters.⁶³

Of all the countries participating in the Marshall Plan, France has put in and used the largest amount of counterpart currency. A poor second in the deposit and utilization of the funds has been the United Kingdom, followed by Germany (Federated Republic), Italy, Austria, Greece, Netherlands, Norway, Trieste, Belgium and Denmark, in that order.⁶⁴

During the two years that the Marshall Plan has been in effect the counterpart fund has contributed the equivalent of a good many millions of dollars to the participating countries for production promotion, debt retirement and other purposes.

The largest portion of counterpart funds utilized to promote production has been used to aid electric power. It has been pointed out, that before the Economic Recovery Program went into effect a great many plants in Western Europe

⁶³For a more precise analysis of the use that the ninety-five per cent portion of the counterpart funds have been put to, see Table II.

⁶⁴Local Currency Counterpart Funds, April 30, 1950,
p.2 (Chart).

TABLE II

APPROVALS AND WITHDRAWALS

ECA APPROVALS FOR WITHDRAWAL OF EUROPEAN COUNTERPART FUNDS
AND ACTUAL WITHDRAWALS CUMULATIVE THROUGH APRIL 30, 1950
(Dollar Equivalents of the local currency, in millions of dollars)^{a/}

Purpose	Total		Public Law 172		Public Laws 84-359	
	Approved for withdrawal	Withdrawals	Approved For Withdrawals	Withdrawals	Approved For Withdrawals	Withdrawals
<u>Total</u>	<u>\$3,975.1</u>	<u>\$3,327.1</u>	<u>\$3,453.6</u>	<u>\$3,323.3</u>	<u>\$521.5</u>	<u>\$503.8</u>
<u>Monetary & Financial</u>						
Stabilization	1,114.0	1,114.0	1,041.5	1,041.5	72.5	72.5
Debt Retirement	1,114.0	1,114.0	1,041.5	1,041.5	72.5	72.5
Promotion of Production	2,224.7	2,203.0	1,790.4	1,765.3	151.3	117.7
Agriculture	277.4	262.4	243.9	243.9	33.5	13.5
Extractive Industries	353.8	353.8	319.7	319.7	34.1	34.1
Manufacturing	205.2	205.2	183.8	183.8	21.4	21.4
Trans., Communication, Utilities	1,225.7	1,223.1	836.5	837.9	339.2	339.2
Deficiency Materials	36.1	33.1	38.1	38.1	--	--
Loans to Commerce & Ind.	7.5	7.5	7.5	7.5	--	--
Technical Assistance	6.7	5.1	4.3	4.3	2.4	0.8
Undistributed	110.2	107.8	106.5	104.1	3.7	3.7

^{a/} See fn. p.26 on "Dollar equivalents."

Source: Local Currency Counterpart Funds, April 30, 1950.

TABLE II (continued)
APPROVALS AND WITHDRAWALS

ECA APPROVALS FOR WITHDRAWAL OF EUROPEAN COUNTERPART FUNDS
AND ACTUAL WITHDRAWALS CUMULATIVE THROUGH APRIL 30, 1950

(Dollar Equivalents of the local currency, in millions of dollars)^{a/}

Purpose	Total		Public Law 472		Public Laws 84-739	
	Approved for Withdrawal	Withdrawals	Approved For Withdrawals	Withdrawals	Approved For Withdrawals	Withdrawals
Other Purposes	<u>£36.4</u>	<u>510.1</u>	<u>621.7</u>	<u>406.5</u>	<u>14.7</u>	<u>13.6</u>
Construction of Public buildings and housing facilities	217.0 120.4	216.5 77.1	206.5 119.3	206.5 76.6	10.5 1.1	10.0 0.5
Special Relief Projects						
Payments to German Exporters	150.0 7.4	150.0 7.4	150.0 4.5	150.0 4.5	-- 2.9	-- 2.9
Tourism						
Undistributed	141.6	59.1	141.4	58.9	0.2	0.2
^{a/} See fn. p.26 on "dollar equivalents."						
Source: Local Currency Counterpart Funds, April 30, 1950.						

remained idle due to the lack of electrical energy. The Western European countries have spent close to the equivalent of \$650 million from counterpart funds to increase their output of electrical energy. With this expenditure of \$650 million the participating countries have built hydroelectric plants, thermal plants, dams, and transmission lines.⁶⁵

Next to electrical energy in importance of counterpart funds spent for promotion of production has been that spent on railroads and improving transportation. The railroads as well as the other means of transportation were very hard hit by World War II. In an attempt to restore the railroad system to some semblance of its old self the counterpart funds have spent the equivalent of \$446 million. Besides this \$446 million spent for railroads there has also been an additional \$147 million of special account funds utilized for the repair and improvement of roads, highway bridges, waterways and harbors, merchant and fishing fleets, airports, and other communication facilities.⁶⁶

A third large recipient of counterpart funds has been various manufacturing industries such as primary metals, machinery, petroleum and coal products, basic textiles, chemicals, manufactured food products, fertilizers, pulp, paper

⁶⁵ Ibid., pp.4-5.

⁶⁶ Midpoint Review, p.4-5.

and paper products, glass products, rubber and rubber products, and lumbering products. These industries of Western Europe have received \$371 million of counterpart funds.

The extractive industries of the participating countries have gained from the utilization of the equivalent of \$354 million of local currency funds. Of this amount all but \$3.1 million has been spent on the improvement of mines, and the boosting of production of the coal mining industry.⁶⁷

The agricultural industry which is always one of the basic factors in any area recovery program, has been the recipient of the equivalent of \$262 million of local currency counterpart funds.⁶⁸ It has been distributed in the following proportions: \$93 million for land reclamation and the remaining \$166 million for such things as controlling farm pests, introduction of better seed, reconstruction of war damaged facilities, modernization and mechanization of farms, and other agricultural programs.

One of the major reasons for the poor recovery of industrial production in Western Europe immediately following World War II was due to the lack of adequate housing. It is hoped that by the release of the equivalent of \$203 million

⁶⁷ Local Currency Counterpart Funds - April 30, 1950, p.4 (table).

⁶⁸ This figure includes \$3.1 million spent on Forestry.

the housing shortage will be somewhat alleviated. In addition to the counterpart funds spent on housing a further amount of \$13.5 million has been withdrawn for the construction of public buildings.⁶⁹

However, in addition to using counterpart funds for the promotion of production, a considerable portion has been used for debt retirement and financial stabilization.⁷⁰

A large portion of the war expenses in Western Europe was financed by government borrowing. This borrowing did a great deal toward creating inflationary pressures within a country, due to the fact that, in most cases, it greatly expanded the money supply.⁷¹ It was recognized at the time of the Marshall Plan's gestation period that any program devised to bring Europe out of the doldrums was going to have to take anti-inflationary measures. It was felt that as long as the inflationary forces were uppermost, any semblance of economic recovery would be impossible. Added to this was the problem of political instability which is usually the hand-maiden of runaway inflation.

The most direct way that counterpart funds can be used to curb inflation and maintain financial stability is through

⁶⁹Midpoint Review, pp.6-7.

⁷⁰See p.13.

⁷¹The source of the borrowed funds plays a large role in determining how much the money supply will be expanded.

monetary cancellation. The way this works is for the country with available counterpart funds to use them as they are released for the repayment of debt owed by the government to the central banks. By the government retiring its central bank debt it cancels a portion of the excess supply of money. It is very important from the point of overall recovery, to see that government debts to individual citizens are not paid off, for if they were this would only add to the inflationary pressures.

Since the beginning of the Marshall Plan, local currencies equal in amount to \$1,100 million has been released for the purpose of debt retirement. It should be added, however, that since October 31, 1949, no counterpart funds have been released for this purpose. The reason for the restriction is that there has been some question in the minds of the Economic Cooperation Administration as to whether debt retirement is the most effective and beneficial way to use the counterpart funds. Thus, pending a full review of the economic effects of the counterpart fund it was decided that the use of the funds for debt retirement should be halted.

With this composite view of how the counterpart fund works and what it has worked for, the next step is to see how various participating countries have used their funds, why they have used the funds in the manner they have, and whether it would have been possible to alter the use of the funds in any way in order to facilitate better recovery in the recipient areas.

CHAPTER III

COUNTRY STUDIES

The analysis of the counterpart funds, thus far has been devoted largely to a description of the mechanism of the counterpart device and an examination of a composite picture of what the funds have done to aid recovery in Western Europe. It can be seen that the overall progress has been quite substantial; however, by a glimpse at the utilization of the counterpart funds in the individual countries it may be possible to get an even better insight to the results of recovery progress in Western Europe.

In order to make a study of the individual countries it is necessary to recognize certain conditions and problems about particular areas and countries. One must constantly keep in mind that the various participating countries are in different stages or phases of recovery; that the impact of the war was much greater on some countries than on others; and that different areas have different ideas as to how recovery can best be achieved. Therefore, it can readily be seen that each country has a different set of circumstances in regard to the necessary assistance needed to bring about recovery.

However, it has been pointed out that there are certain patterns which are characteristic and at the same time

readily observable in many countries. Therefore, it is possible, to a certain extent, to study the economic situation of each country in terms of these certain patterns that are observable in more than one country.

The Economic Cooperation Administration points out that there are four such patterns that may be usefully distinguished.⁷² First, there are a number of countries that are in what has been described as the first phases of recovery. The big job in these countries is to restore trade and production to approximately what it was before 1939-40, at the same time allowing its people at least a minimum standard of living, and maintaining internal financial stability. The problem in these countries is for them to get their production processes in shape and start producing as much and as fast as they can. In these areas in their initial phase of recovery it will probably be some time before they can start working on a self-supporting economy. It is also important that these areas have a stable government or else their job is rendered that much more difficult. The outstanding examples of this first category are the Federal Republic of Germany and Italy.

⁷² A Report on Recovery Progress and United States Aid, February 1949, pp.20-22.

A second category is observable in many countries which are somewhat further along in their recovery. This second pattern occurs in countries which either have reestablished stable governments or better yet never had their governments impaired. A prime example of this second type is the United Kingdom. In these countries where this second pattern is characteristic it is quite necessary that they make major structural economic changes in order that they may become self-supporting. And in order to become self-supporting these countries have permitted and encouraged a very high rate of capital formation. It is out of this high rate of capital formation that this second type arises, due to the fact that anytime a country has heavy investments, unless it has the necessary offsets it is going to have inflation. The attempt to offset this inflationary pressure, namely through high rates of taxation and extensive use of direct controls further characterizes this second category.

A third type is the country whose economic status has advanced beyond the first phase of getting its productive processes in somewhat near pre-war shape, and even beyond the creation of new industries stage which is characteristic of the second type. The problem of the third category countries is one of the trading position. These countries are near or will be near an overall balance in their international accounts, but the big problem for them is to get

goods and dollars from the Western Hemisphere.

The fourth type occurs where the basic need of the country is for economic development. The best examples of this category are Turkey and Greece.

It must be remembered in attempting to apply these patterns to an individual country that a single pattern will rarely fit all the circumstances of the situation. In discussing the uses to which counterpart funds have been put to enable recovery progress in the individual countries there will be an attempt to show how these four patterns mentioned above are applicable to the country concerned.

The Economic Cooperation Administration, under Congressional direction and in consultation with the National Advisory Council, has tried to set forth in the use of the counterpart funds "the principles of economics [economic] cooperation which are basic to the most productive distribution and use of available resources." In addition the government of each participating country receiving grant-aid has been consulted in order to determine (1) how the counterpart money could best be used, and (2) how the "limited amount of counterpart funds could be used as an aid in attaining financial stability, balanced investment programs, and intra-European trade liberalization."⁷³

⁷³ Midpoint Review, pp.9-10.

In the following pages an attempt is made to summarize the ways in which local currency counterpart funds have been and are being utilized in what are probably the four leading participating countries.

The countries that have been chosen for study are France, the United Kingdom, Western Germany, and Italy. There are several reasons why these four countries have been chosen. The first is the significant percentage of counterpart funds that each of these participating countries have used. Of the ten participating countries⁷⁴ that have withdrawn the equivalent of \$3,827 million in counterpart funds, France, the United Kingdom, Germany (Federal Republic), and Italy have withdrawn the equivalent of \$3,157 million which is eighty-three per cent of the total (see Table III).

Secondly, by observing these four countries it is possible to study the various effects different uses of the counterpart funds have on the economics of the participating countries. In other words, for the most part, these four countries are representative of all the different uses to which counterpart funds have been utilized.

A third reason is the belief that these four areas are the most important areas in which substantial recovery should be made if Western Europe is to regain its lost status. It

⁷⁴Turkey, Portugal, Ireland, Iceland, Belgium and Luxembourg have not as yet withdrawn any counterpart funds.

TABLE III

ECA APPROVALS FOR WITHDRAWAL AND WITHDRAWALS OF
COUNTERPART FUNDS UNDER PUBLIC LAWS 84, 389 and 472
THROUGH APRIL 30, 1950

(Dollar Equivalents of the Local Currency, in Millions of Dollars)^{a/}

Country	Use of Funds	
	Approved for withdrawal	Withdrawals
<u>Total</u>	<u>\$3,972.8</u>	<u>\$3,827.1</u>
France	1,757.5	1,757.5
United Kingdom	737.2	737.2
Germany (Federal Republic)	332.3	379.7
Italy	306.6	232.9
Austria	268.6	268.6
Netherlands	162.9	162.9
Greece	219.0	149.8
Norway	73.5	73.5
Denmark	(b)/	(b)/
Trieste	15.2	15.0

^{a/} See fn. p.26 on "dollar equivalents."

^{b/} Less than \$50,000.

Source: Local Currency Counterpart Funds, April 30, 1950.

is believed that if France, the United Kingdom, Western Germany and Italy regain a self-supporting status it will only be a matter of time before Western Europe will regain its old position in the economic and political circles of the world.

FRANCE:

In order to understand the current situation in France it is necessary to have an understanding of the pre-war conditions of the French economy. Since the beginning of the twentieth century, France has been suffering from a slowing down of her economic growth. The economic crises of the United States and other countries in the world during the 1930's further aggravated the situation even though France herself was not so hard hit as some of the other nations. The unfortunate thing about the 1930 crisis for France was that when the other industrial nations began to recover, France's production showed no improvement. France's gross national production in 1938 was twelve per cent and industrial production more than twenty-five per cent below 1929.⁷⁵

From 1929-38 France shows practically no net aggregate investment. This lack of investment meant that there were no new opportunities for employment. Thus, the French

⁷⁵A great deal of the material in this section on France is taken from: Economic Cooperation Administration, France Country Study, Washington D.C., February 1949.

economy during the third decade of the twentieth century could be characterized as stagnant. However, the effect of this cessation of economic growth on the French standard of living was not as great as one might think. In fact French consumption in 1938 (in real terms) was only slightly less than in the peak year of 1929. There were several reasons why French consumption was only slightly less in 1938 than in 1929. The most important single reason was the fact that during this period France had nearly a static population. In addition to this reason there were other factors, such as a low rate of investment, improvement in the terms of trade as compared with the 1920's, and a substantial amount of income from invisible items which allowed France to import considerably more than she exported.

In 1940 France was overrun by Germany and from then until 1944 when she was liberated she was largely under the control of the Nazis, thereby making still shakier her already precarious economic and political structures.

Of the many problems of an economic nature that have confronted France since her liberation one of the most troublesome has been an ever present inflation which has permeated the entire country. This inflationary condition has been further aggravated by the unstable political situation within the country. The effect of inflation on the economy of France has been that it has grossly distorted the price

structure, caused production to be cut back, used up labor and materials that could have otherwise gone into export products, and in general caused a maldistribution of resources. In addition it has caused labor unrest and engendered social instability, thus allowing communism to develop.

Though economic problems have caused France a good deal of unrest, it cannot be said that they alone have been the sole cause of her instability. In particular, the feeling of military insecurity, so obvious during the 1920's and early 1930's, and which was accentuated and perpetuated during the German occupation caused a great deal of her internal difficulties especially in regard to political instability. The policies of the potent Communist Party in France asking its followers to thwart the efforts of the European Recovery Program have also been a constant thorn in the side of France's recovery.

Thus, it can be said that inflation, political instability, communist inroads, and military insecurity are the ogres that must be conquered if France is to resume her proper place in the world picture. It will be worthwhile to keep these four mentioned adversities in mind when attempting to analyze the progress of French recovery and the prospect of France attaining her former self-supporting status.

The first real progress made by the French government

in regard to economic and political stability was not to come until three years after its liberation from Germany in 1944. Late in 1947 the Schuman government put forth a broad constructive program calling for the cessation of inflationary financing by the government, a forced loan from the top income groups and the agriculturalists, plus other stringent policies calling for fiscal stabilization. However, Schuman's proposals were not enough and by July 1948 prices again began to spiral upward. The new Queuille government came into power in September 1948 and inaugurated a fiscal program that they hoped would cope with France's economic situation.

When Queuille became Premier, part of his fiscal program was built around the idea of drawing on the counterpart fund to relieve the French financial situation. The United States, which at this time had not released any of the Foreign Assistance Act counterpart funds to France,⁷⁶ said funds might be released if France took sound steps toward stabilizing her currency and the United States was quick to add that paper programs would not be sufficient.⁷⁷

⁷⁶The Economic Cooperation Administration had authorized the release of twenty-five billion francs or the equivalent of eighty-two-and-one-half million dollars of Interim Aid counterpart funds in April of 1948.

⁷⁷New York Times, September 16, 1948, p.3.

On September 28, 1948 it was announced by the Economic Cooperation Administration that the first Foreign Assistance Act counterpart funds had been released to France. However, it was only after the Queuille measures calling for 120 billion francs in new production taxes and a limitation of bank credit had passed the French Parliament that the Economic Cooperation Administration agreed to release the funds. The reason given by the United States for releasing the funds was to avoid further inflationary financing by the French Government.⁷⁸

This first release of Economic Cooperation Administration funds in September 1948 called for the use of the forty-five billion francs of French counterpart funds, the equivalent of \$150 million for specific projects intended to increase the productive capacity of France's basic industries. The idea behind the use of this initial release of counterpart funds, as well as about ninety-two per cent of France's subsequent releases, was to finance productive investments, thus eventually putting more goods on the market and in this way working against inflation. The largest portions of this second release were earmarked for the electric power, coal mining and railroad industries.

⁷⁸Ibid., September 18, 1948, p.13.

On November 4, 1948 a third release, this time for twenty-five billion francs of counterpart funds was made, thus bringing the total of released counterpart funds up to ninety-five billion francs or approximately the equivalent of \$310 million. Also in the same month the United States stipulated that future releases of counterpart funds depended upon the French government's progress. The Queuille government then came out with a statement to the effect that they hoped to equilibrate prices and wages at a new level thereby ensuring further recovery.

In December of 1948 France came forward with a new proposal in regard to the release of counterpart funds. This new proposal asked for permission to use the equivalent of one billion dollars of local currency counterpart money during 1949 and that they be allowed to use the funds as the need arose, thus sidetracking the process whereby the Economic Cooperation Administration Administrator released portions of it periodically. In answer to this the United States said that the counterpart funds could not be released for an entire year in advance of its gradual creation by the influx of dollar aid. In addition the United States said France must take more stringent steps toward attaining financial stability, thus enabling them to increase production and exports.

With this idea of maintaining financial stability, the

French government proceeded to formulate its budget for 1949. This idea of drawing up a budget for the entire 1949 year was a step in the right direction, because this was the first time since the war that France had attempted to plan ahead for a whole year rather than piecemeal. The French government led by Queuille realized that if it did not want to forego counterpart fund aid, it had better balance its budget and cease inflationary financing. Thus, after a considerable amount of discussion and debate, the National Assembly approved the 1949 budget on January 1, 1949.

While the debates were ensuing in the National Assembly the Economic Cooperation Administration released forty-five billion francs from the French counterpart fund. Many people in the United States and France have contended that these funds were released at that time in order to aid Queuille to get his budget through the Assembly. Of the forty-five billion francs that were released during December 1948, twenty billion francs were for the continuance of reconstruction projects. However, twenty-five billion of it was to be used to fight inflation directly. The way that this was to be done was to reduce the debt the French government owed to the Bank of France. This marked the first time that the counterpart funds had been used for this purpose in France.

However, not only was the French government required to

reduce its borrowing from the Bank of France, but it also had to "reduce the ceiling of those borrowings by the amount of the counterpart funds released for this purpose." In other words the ceiling had to fall from the two hundred billion francs it had been to a new ceiling of 175 billion francs. The remarkable thing about this achievement is that it was the first time in twenty years that the ceiling had been reduced. It was further stipulated by the Economic Cooperation Administration that the ceiling should be down to the 175 billion franc mark by March 31, 1949.⁷⁹

During the months of January, February, and March 1949 there were no additional releases of counterpart funds for France. Therefore, with April 2, 1948 marking the end of the first year of the Foreign Assistance Act it is probably opportune to review the result of the counterpart fund's first year of activity.

The most outstanding characteristic in the use of the French counterpart funds during the first year was that, "according to all available evidence, counterpart [money] made it possible for the French Government to continue its program of essential investment and bring about monetary stabilization at the same time."⁸⁰

⁷⁹New York Times, December 23, 1948, p.4.

⁸⁰First Annual Review, p.6.

As pointed out in the preceding pages, 140 billion francs accruing under Public Law 472 (Foreign Assistance Act of 1948) and Public Law 389 (Foreign Aid Act of 1947) were released to the French Government from the counterpart funds during the first year of the program. Of this 140 billion francs released, 105 billion went for the reconstruction and modernization of productive facilities, 10 billion for the development of scarce materials and the remaining 25 billion for the retirement of debt.⁸¹

Of the 105 billion francs released for the promotion of production a large portion was allocated to the Monnet Plan, on which the basis of France's long term recovery program is based.⁸² The main feature of the Monnet plan is that it calls for an accelerated investment program encompassing all the important fields of economic activity such as electric power production, improvement of the railroads and other transportation industries, modernization of the coal mining industry, rehabilitation of the merchant marine, promotion of agricultural production, and the encouragement of private industrial investment.⁸³

⁸¹See pp.53-54.

⁸²The Monnet Plan (named for Jean Monnet who headed up the Planning Council which devised the plan) for France was adopted on January 7, 1947. The plan does not cover all of France's economy, but it does aim to set production goals for a four year period (1947-50) for six of France's key industries. The industries that come under Monnet Plan supervision are coal, power, steel, cement, agricultural machinery and transport. The Monnet Plan also calls for France to import large amounts of machinery and raw materials. see The Americana Annual 1948, New York, 1948, p.257.

⁸³For the amount allocated for each of these purposes see Table IV on pp.56-57.

TABLE IV

USE OF COUNTERPART FUNDS BY FRANCE

Use	Apr. 3, 1948 - Apr. 2, 1949 ^{a/}		Apr. 2, 1949 - Apr. 1, 1950 ^{b/}		Two Year Total ^{c/}	
	Local currency (Billions of Francs)	Dollar d/ Equivalent (Millions)	Local currency (Billions of Francs)	Dollar Equivalent (Millions)	Local currency (Billions of Francs)	Dollar Equivalent (Millions)
Retirement of Debt	25.0	29.6	20.0	71.8	45.0	171.4
Promotion of Production	115.0	496.9	268.5	948.4	333.5	1445.3
Coal Mining	20.2	85.0	60.0	217.4	80.2	302.4
Agriculture	2.0	7.9	37.2	121.7	39.2	129.6
Petroleum & Coal Products	2.4	10.5	0.5	1.2	2.9	11.7
Railroads	19.9	86.3	20.9	78.2	40.8	164.5
Electric, gas, light & Power Facilities	51.4	225.7	106.5	368.7	157.9	594.4
Primary Metals	1.1	4.9	13.7	48.7	14.8	53.6
Stone, Clay and Glass Products	0.2	.9	0.6	1.8	0.8	2.7
Fertilizer	0.3	1.4	1.6	5.8	1.9	7.2
Chemicals & Allied Products	0.1	.7	1.0	3.3	1.1	4.0
Miscellaneous Machinery	1.1	5.2	1.6	5.2	2.7	10.4
Miscellaneous Manufactures	0.2	.8	2.6	10.3	2.8	11.1
Waterways & Harbors	1.0	4.4	3.6	12.8	4.6	17.2
Merchant & Fishing Fleet	5.0	22.8	13.0	48.3	18.0	71.1
Roads & Msc. Transportation Facilities	0.1	.6	1.2	4.5	1.3	5.1
Strategic Materials	10.0	39.8	0.0	-(1.7)e/	10.0	38.1
a/ Source: Local Currency Counterpart Funds, April 2, 1949.						
b/ Two year total less first year amounts.						
c/ Source: Local Currency Counterpart Funds, March 31, 1950.						
d/ See footnote "Dollar equivalents," on p.26.						
e/ This discrepancy was brought about by the fact that the strategic material funds were transferred from section to section at times when different conversion rates were in effect.						

TABLE IV (continued)

USE OF COUNTERPART FUNDS BY FRANCE

Use	a/ Apr. 2, 1949 - Apr. 1, 1950		b/ Apr. 2, 1949 - Apr. 1, 1950		c/	
	Local currency (Billions of Francs)	Dollar Equivalent (Millions)	Local currency (Billions of Francs)	Dollar Equivalent (Millions)	Local currency (Billions of Francs)	Dollar Equivalent (Millions)
Basic Textiles	0.0	--	2.0	7.1	2.0	7.1
Food Products Mfg.	0.0	--	1.4	9.7	1.4	9.7
Pulp, Paper, & Paper Products	0.0	--	0.3	1.0	0.3	1.0
Rubber & Rubber Products	0.0	--	0.2	0.7	0.2	0.7
Undistributed	0.0	--	0.6	3.7	0.6	3.7
Other Purposes	--	--	14.8	49.3	14.8	49.3
Housing	--	--	13.1	44.0	13.1	44.0
Public Buildings	--	--	1.1	3.1	1.1	3.1
Transportation of Relief Packages	--	--	0.3	1.1	0.3	1.1
Tourism	--	--	0.3	1.1	0.3	1.1
Total Withdrawals	140.0	596.5	303.3	1069.5	443.3	1666.0

a/ Source: Local Currency Counterpart Funds, April 2, 1949.

b/ Two year total less first year amounts.

c/ Source: Local Currency Counterpart Funds, March 31, 1950.

d/ See footnote "dollar equivalents," on p.26.

e/ This discrepancy was brought about by the fact that the strategic material funds were transferred from section to section at times when different conversion rates were in effect.

One of the most important features of the recovery program in France for which counterpart funds have been released is the series of dams that are being constructed on many of the major rivers in France in order that electrical energy may be provided for French homes and factories.

The 300 foot wide Genissait dam in the Rhone Valley, the largest in Western Europe, is only one of the many dams that has been built with the aid of counterpart funds.⁸⁴ Others are being built on the Rhine and Dardogne, as well as along many of the smaller rivers in the Pyrenees and Alps mountains.

The modernization of the coal mines was another important use for which counterpart funds were spent during the first year of the Foreign Assistance Act. It was hoped that by the use of the funds much of the machinery in the mines would be replaced and repaired. It has been pointed out by the Economic Cooperation Administration in its Midpoint Review that the average age of the mining machinery now in use is estimated at twenty-seven years while the optimum limit for this machinery has been set at fifteen years. Thus, it is easy to see why the average French coal miner produces only about one-fourth as much coal as does the average United

⁸⁴This dam now completed provides two billion kilowatt hours of electricity per year. see R.P. Schwarz, "The First Half of the Monnet Plan." The Fortnightly, 172:222, October 1949.

States coal miner.⁸⁵

As pointed out earlier, in addition to the 125 billions of francs that were released to France during the first year of the Foreign Assistance Act for production promotion and debt retirement respectively, there was an additional ten billion francs released to France for the development of strategic and scarce materials. The largest part of this 10 billion francs was to be spent on the exploration and development of source materials in the French Union, with a great deal of emphasis on the overseas territories.⁸⁶

With the above brief review of the use of the French counterpart funds during the first year of the European Recovery Program it is possible to move along to the second year of the program, which in many respects was even more important than the first.

During the second year that the Foreign Assistance Act was in effect, the Economic Cooperation Administration released 303.3 billion local currency counterpart francs to be used by the French government.

Of the amount released 20 billion francs were used for debt retirement, 268.5 billion francs for promotion of production and 14.8 billion francs for what was classified by the Economic Cooperation Administration as other purposes.⁸⁷

⁸⁵First Annual Review, p.6.

⁸⁶Ibid.

⁸⁷"Other purposes" include housing, public buildings, transportation of relief packages and tourism.

The release of 20 billion francs for debt retirement was made in June 1949, and brought to 45 billion francs the total amount allocated for this purpose. The first release of funds for debt retirement back in December 1948 had lowered the legal ceiling for the Bank of France advances to the French Treasury at 175 billion francs, however, this new release of 20 billion francs was not to reduce the ceiling, but instead was an attempt to relieve some of the pressures against the ceiling. This was to be done by allowing the Treasury to cash its short-term bills held by foreign Central banks now demanding increased franc resources to pay for increased French exports."⁸⁸

As in the first year of the European Recovery Program the largest percentage of the total amount of counterpart funds released was for production promotion. During the second year eighty-nine per cent of the funds were spent for this purpose. Also as in the first year the largest industrial benefactor of the local currency counterpart funds was the electrical energy industry. However, they received 106.5 billion francs during the second year, as compared to 51.4 billions of francs during the first year.

The coal mining industry maintained the same rank during the second year that it had held in the first, that of

⁸⁸Local Currency Counterpart Fund, June 30, 1949, p.2.

the second largest recipient of counterpart funds. The amount spent on coal mining during the second year was three times as great as the amount spent during the first year.⁸⁹

The industry receiving the third largest portion of funds during the first year, the railroad industry, dropped to fourth place during the second year. This industry received 20 billion francs for improvement and reconstruction during the first year and 21 billion francs during the second year. However, proportionately the railroad received a much smaller share during the second year.

The agricultural industry which had received only two billion francs from April 3, 1948 - April 2, 1949, received 37.2 billion francs during the second year of the program. Much of the agricultural allotments during the second year were land reclamation projects which had not yet gotten under way during the European Recovery Program's first year.

Industries such as stone, clay and glass products, and miscellaneous machinery received approximately the same amount of local currency funds during the second year as they had during the first. While such industries as primary metals, fertilizers, chemicals and allied products, miscellaneous manufactures, waterways and harbors, merchant and fishing fleet, roads and miscellaneous transportation facilities had

⁸⁹ See Table IV on pp.56-57.

large proportionate or relative changes even though the absolute changes in some cases did not amount to too great a figure. In addition there were a number of new recipients of counterpart funds during the second year of the program such as the basic textile industry, the manufacturers of food products, the manufacturers of pulp, paper and paper products, and the rubber and rubber products industries.

However, all the first year recipients of funds did not show an increase in the amount of funds allocated as is evidenced by the petroleum and coal products industry and again with the strategic material allotment. During the first year of the program, petroleum and coal products received 2.4 billion francs from the fund, whereas, in the second year they received only 500 million francs. Likewise the amount allocated for strategic materials during the first year was 10 billion francs while in the second year there were no new funds released for this purpose.

Of the 14.8 billion francs classified as for other purposes and therefore not categorized by the Economic Cooperation Administration as production promotion funds or debt retirement, the largest recipient has been housing with an allotment of 13.1 billion. Others in this category are public buildings, transportation of relief packages and tourism. All of these "other purpose" items received no allotments whatsoever during the European Recovery Program's first year.

Thus, during the second year of the Economic Recovery Program over twice as many local currency counterpart fund francs were released as during the first year of the program. While 140 billion francs were released during the first year (April 3, 1948 - April 2, 1949), 303 billion francs were released during the second year (April 2, 1949 - April 1, 1950).⁹⁰

At the end of the first two years of the European Recovery Program a great deal of progress has been made in nearly every sector of the French economy toward attaining the goals set by the Foreign Assistance Act. Price inflation, which characterized the economy for four years after France's liberation, was apparently checked during 1949. At the inception of the Foreign Assistance Act in 1948 ruinous inflation threatened France. From the end of the war up until the fall of 1948 wholesale prices had jumped fifty per cent or more over what they had been the preceding year, but in 1949 wholesale prices rose only one per cent over 1948. At the beginning of the Economic Cooperation Administration program France was desperately weak and grew even weaker during 1948 up through the time of the coal strike in the fall of that year. In fact there was a time when the black market rate on dollars in France was seventy per cent above the legal rate.

⁹⁰For a comparison as to what the funds were spent on during the first year as compared to the second year, see Table IV on pp.56-57.

At the present time the black marketing for francs is practically non existent.

There was a rapid rise in industrial production during 1949, and by April 1950 was running thirty per cent ahead of 1933. Agricultural production and livestock output is almost back to pre-war production. The "Monnet Plan" designed to rehabilitate France's industry and agriculture proceeded approximately on schedule during 1949, giving further encouragement to France's chances of becoming self-supporting by 1952. France also increased her exports to other countries by forty per cent in 1949. She sold more goods and services to every trading area in the world than she purchased from them except the United States. Thus, it seems as though France's problem fits what has been described earlier in the chapter as the third type or category, that is, a country that has restored its productive processes to the pre-war level and has the products to trade on the market only to find that the area with which she is most desirous of trading is not willing to accept her goods. In other words France's economic dilemma has changed from a production problem to a trading problem.⁹¹

Counterpart funds have played a large role in aiding the recovery of France. To see how important they have been

⁹¹ Barry Bingham, "France a Case Study in Marshall Plan Recovery," Vital Speeches of the Day, 16:477, May 15, 1950.

one needs only to look at the figures showing the quantity and allocation of the expenditures. It has been pointed out by the Economic Cooperation Administration that the counterpart fund has provided four-fifths of the total amount used for electric power facilities, three-fourths of the financing for improving coal mining, one-third of the money for rehabilitating the railroads, and in addition has made large outlays to bring about reconstruction in other sections of the French economy.⁹² Over 443 billion francs in counterpart funds have been used to aid the French economy since the Economic Cooperation Administration program started in April 1948.⁹³

The largest single share of French counterpart funds has been spent for electric, gas, light and power facilities. As a matter of fact 160 billion francs, over one-third of the entire funds, have been used for this purpose. The reason that such a large portion of the entire fund was allotted for this purpose is that French industry had long been hampered by a shortage of electrical energy, and many plants had to close down for portions of the year when the power was short, thereby further aggravating unemployment. Therefore, the use of counterpart funds gave France a chance to tackle the problem

⁹²Midpoint Review, p.11.

⁹³See Table IV on pp.56-57.

on a large scale. By the use of the funds France has been able to double her electric power output over the pre-war limit. This is all the more remarkable because during the war electrical power output had dropped nearly twenty-five per cent. The funds have helped to finance the building of fifty-eight hydroelectric plants, nineteen thermal plants, and a number of dams throughout France. It is expected that by 1952 the French electrical energy industry will show an increase in output of more than one hundred per cent over the pre-war level.⁹⁴

Another large recipient of French counterpart funds has been the coal mining industry. During the first two years of the recovery program it had 80.2 billion francs allocated to it. The counterpart funds have been used to modernize the mines and boost production. Between 1948-49 productivity per miner increased seventeen per cent and 1949 coal production surpassed every previous year's output except 1929.⁹⁵

A third industry that benefited immensely from the counterpart fund aid was the railroad industry. The French railroads were very hard hit by World War II. A large portion of their stations, marshalling yards, junction points, and railroad trestles were destroyed either when the Germans

⁹⁴ Midpoint Review, p.3. Also see Bingham, Vital Speeches of the Day, p.477.

⁹⁵ Midpoint Review, p.6.

overran the country in 1940, or by the Allied forces during 1943-44. By April 1949, 41 billion francs from the counterpart fund had been used to help restore the railroad system in France, and partly as a result of this expenditure the French railroads are once more back to their pre-war standard. Thus, only a small portion of the counterpart funds from now on need be allocated to the railroads.⁹⁶

A considerable portion of the counterpart funds—39 billion francs—has been used for the recovery of agriculture. The French funds have been spent for land reclamation, improvement of storage and distribution, and reconstruction of facilities damaged by war. In the Camargue region, which was once nothing but wasteland, French farmers are now producing as much as 10,000 tons of rice per year due to the fact that irrigation from the Rhone River now makes possible the cultivation of thirty-seven thousand acres of this land. There are also many other irrigation projects, financed by counterpart funds that are allowing what were formerly parched areas now to produce bountiful yields. Another example is the Bordeaux region which is expected to produce its first bumper crop as a result of large-scale engineering projects. Also in the Normandy area drainage and clearance projects have permitted crops to be planted for the first time.

⁹⁶
Ibid., pp.11-12.

In France 13 billion francs from the counterpart funds have been released for housing projects. French housing was in a sad plight at the inception of the Marshall Plan. As an outcome of World War II one building out of every twenty-two was totally demolished. The job of housing reconstruction is slow, but the French government has allocated approximately 95 billion francs to be spent on housing in 1950, 22 per cent of their entire budget.⁹⁷

Some of the worthy housing projects taken on since the beginning of the Marshall Plan, many of which were financed by counterpart funds, are the three thousand housing units being built in the various coal mining areas of the country. Also many homes are being built for steel plant workers and potash miners. It has been estimated by the French Ministry of Production that over 75 thousand housing units have been completed since the Foreign Assistance Act went into effect.⁹⁸

The French counterpart funds have also been used to aid its manufacturing industries. Altogether 31 billion francs of local currency have been used for this purpose. The recipient of the largest amount of help has been the steel industry, especially in the vicinity of Hayange, the "Pittsburgh of France." Another area that has received a considerable amount of aid has been the Denain area which

⁹⁷Bingham, Vital Speeches of the Day, p.477.

⁹⁸Midpoint Review, p.8.

also has a large iron and steel project. Some of the other manufacturing industries to which the counterpart funds have rendered assistance are: electrical machinery, food products, stone, clay and glass, pulp, paper and paper products, basic textile, and rubber and rubber products.⁹⁹

Of the 433 billion francs of counterpart funds that have been used by France, ten billion of them were used to develop sources of deficiency materials in its overseas area. France has hope that these overseas expenditures will pay dividends in the long run.

Another important use to which counterpart funds have been put is for direct financial stabilization. Approximately 10 per cent of France's counterpart funds have been used for this purpose. The use of counterpart funds in this way has enabled the French Government to keep the Bank of France's allowances to it below the legal ceiling, which as a result of the first release of counterpart funds for debt retirement in 1948 had been lowered from 200 billion francs to 175 billion francs.¹⁰⁰

In analyzing the use France has made of the counterpart funds it is necessary to keep in mind both financial and monetary stability and the recovery of French production.

⁹⁹Ibid., p.5.

¹⁰⁰Ibid., p.9.

At the inception of the European Recovery Program it looked as though France's big chore was to control inflation. It was recognized that if they failed to do so there would be little sense in attempting to improve industrial production and industrial labor productivity. Thus, the first objective of the counterpart funds was to control inflation.

There were three ways in which the Economic Cooperation Administration used the counterpart funds to control inflation during 1948-49. First, they released 25 billion counterpart fund francs to fight inflation directly by reducing the debt the French Government owed to the Bank of France. Secondly, they withheld the greater part of the counterpart funds for the first six months of the European Recovery Program, thus cutting down on the amount of money in circulation. The third method by which the Economic Cooperation Administration used the counterpart funds to curb France's inflation was as a tool or lever to get the French Government to pass necessary anti-inflationary legislation. In other words the Economic Cooperation Administration withheld the releases of French counterpart funds until or conditional upon France's putting through the proper budgetary measures. As a partial result of this latter method France's 1949 budget included new taxes, new credit control and fiscal reform measures and the floating of a large internal loan. As a partial result of these three measures it was possible for France to stop inflation during 1949 and, hence, put the financing of investment on a sounder basis.

Thus, with inflation having been curbed in France during 1949 it was possible for the Economic Cooperation Administration to release counterpart funds largely for industrial promotion. However, it should be remembered that using counterpart funds for promotion of production does not have to be inflationary or even have to have a neutral effect; in fact if the production industries are selected properly this method will also be anti-inflationary. France is a good example of releasing counterpart funds for investment purposes without creating inflationary tendencies.

As pointed out earlier in the chapter the largest portions of French counterpart funds have been released for such industries as electrical energy, coal mining, railroads, housing and agricultural land reclamation. By putting francs into these industries, France is building up the production of the country and thus, making more goods available for export plus the fact that through these industries France, herself, is able to have more goods on its domestic market.

However, France will have to take further strenuous efforts in the coming years if she expects her economy to be restored to permanent health. She will have to keep a constant vigil on her public finances to see that they are adequate for her program; as in the last two years the counterpart funds can be used as a lever by the United States to get France to pass the necessary legislation. In regard to

the railroads of France very little counterpart funds will be needed as they are operating at approximately their optimum rate. Housing, however, is a different story. More and more counterpart funds are going to be required for this purpose. Without the necessary housing France's productivity will remain low. It is also evident that, due to the French rent law which keeps rents down in comparison with other factors making up the cost of living, France if she is going to make any strides in alleviating her housing shortage must make use of public funds.

Additional counterpart funds could also be released for the purpose of increasing productivity, coal mining, etc. The goal for French industrial production in 1952-53 is 140 per cent of the 1948 level. If she is to meet this goal it means that output per man-hour in industry will have to increase by one-third over what it was in 1948. This means that in 1950-51-52 extensive investments will have to be made in French industry. Thus, it stands to reason that more counterpart funds are going to have to be released for such purposes as coal mining and electrical energy if this productive goal is to be met.¹⁰¹

However, even if France does use its counterpart funds in the most beneficial manner and does get her production up to the goal set for 1952-53, her ultimate chances for success still depends on her balance of payments problem. If this balance of payments problem is not righted by 1952 or 1953

¹⁰¹France Country Study, p.5.

France's recovery will still be a figment of the imagination.

UNITED KINGDOM:

Due to the great amount of damage done to their economy during World War II the United Kingdom needs a considerable amount of economic aid from the United States. The big job that faces the United Kingdom is for it to "attain a balance in its overseas accounts at an acceptable domestic standard of living." The United Kingdom is confronted with this situation because of the loss from invisible items and also because she had to liquidate many of her overseas investments due to the war. The best way for the United Kingdom to go about "attaining a balance" is to increase her production, thus giving her more goods to export. As for increasing production she will have to do it by modernizing her equipment for the simple reason that she already has all her eligible manpower employed.

Another important problem to which Britain must find a solution if she wants to make herself self-supporting is the problem of balancing her dollar accounts. By the time the European Recovery Program had started in 1948 the United Kingdom had gone a long way toward solving the overall-balance of trade, but the perplexing problem remained of how she could increase her exports of goods and services to the Western Hemisphere in order to attain a balance with the dollar area.

Thus, it is necessary for the United Kingdom, if it is going to regain anything resembling its pre-war status, to make

structural changes in its economy. Britain recognized this problem and is attempting to see that the nation's resources are used with the primary idea in mind of expanding production to such an extent that exports to the dollar area can be increased. In addition the British people are cooperating with the government by accepting the government's so called "austerity" program.

For a century and a half the United Kingdom was the leading industrial country in the world. Its monetary unit, the pound sterling, was probably the most widely used in the world, and many countries found it advantageous to tie their currency to the British unit. In addition most of the important countries of the world maintained their financial headquarters in London, making it the banking headquarters of the world. The people of the British Isles maintained themselves by importing raw materials and foodstuffs which they paid for by exporting invisible items and manufactured goods.

The United Kingdom had the trade of the world pretty much to itself for a period of years early in the nineteenth century. However, as the other nations of the world began to industrialize, Britain could feel the results of competition. The result of this industrial competition was that many of Britain's exporters lost markets to some of the newer industrial nations, especially where these newer nations were using more up to date machinery. This loss of world trade was further

accelerated by World War I when Britain had to concentrate on producing for her wartime needs and in addition had to liquidate many of her foreign investments upon which a great deal of her high standard of living depended.

After World War I Britain hoped that her industrial recovery would be very rapid. However, while it did recover to a certain extent it did not do so at the rate Britain had hoped for. The next setback to Britain's recovery was the world crisis of the third decade of the twentieth century. It was during the 1930's that the United Kingdom's balance of payments showed, for the first time, an actual deficit.

The United Kingdom might have been able to weather the deficit in its balance of payments brought on during the 1930's without any outside assistance, but the storm broke when she declared war on Germany in 1939. As a result of World War II Britain had to liquidate a large portion of her overseas empire. Besides, her merchant marine was hard hit by the German submarines, and her capital plant was greatly damaged by the Luftwaffe's bombing. When the war in Europe ended on May 8, 1945 Britain was confronted with a huge deficit in its balance of payments, even though the people of the United Kingdom had lived on an austerity program throughout the duration of the conflict.

In order for Britain to overcome this huge deficit, as mentioned before, she must increase both production and

productivity and at the same time continue her program of decreasing imports.

To overcome her deficit by 1952 it is predicted by the Economic Cooperation Administration that Britain will have to increase her yearly exports to fifty per cent over 1938, while maintaining imports below the pre-war level. In addition, the Economic Cooperation Administration thinks that manufacturing output will have to be stepped up forty per cent over pre-war in order to keep the export goods up and in order for Britain to maintain an acceptable standard of living.

To increase her productivity and her exports the United Kingdom will require a sizeable increase in her capital investments. The Economic Cooperation Administration figures that twenty per cent of the British gross national product will be used for capital formation during the four years the European Recovery Program is in effect. If this is true the resources remaining for personal consumption will be at a minimum.

This lack of resources for personal consumption allied with the fact that all eligible workers are employed and thus have large money incomes poses a serious financial and monetary problem for Britain. To put it another way full employment creates relatively large incomes, but due to the fact that the country is exporting such a large part of its industrial production there remains very little that the British people

can buy with it. Thus, inflationary pressures are brought about in the United Kingdom which could greatly hamper the recovery program if not handled properly.

Some of the methods that are being used by the British in their attempt to suppress inflation include: higher direct and indirect taxes, government maintained price controls and restrictions on nonessential investments, the rationing of certain consumer goods and the allocation of scarce materials to essential industries.

In addition it was agreed by the Economic Cooperation Administration officials that debt retirement was the most constructive use to which the counterpart funds could be put. It was felt at the inception of the Marshall Plan program that if the United Kingdom used the counterpart funds for investment purposes it would only add to the already strong inflationary pressures. It was also agreed by the government of the United Kingdom and the Economic Cooperation Administration that the counterpart funds should be used to reduce the debt held by the Bank of England but that it should not be used to buy up government securities in the hands of the public. If they used the funds for the latter named purpose, it would add to the already prevalent inflationary tendencies.

Thus, in the first year of the European Recovery Program

between April 3, 1948 and April 2, 1949, the Economic Cooperation Administration released 107.5 million pounds of counterpart funds for short term debt retirement that the British Government owed to the Bank of England.

In addition to the releases for debt retirement during the first year, the Economic Cooperation Administration also approved the use of 17,000 pounds for technical assistance in the promotion of production and also to the release of 25,000 pounds for the inland transportation costs of United States relief supplies.

During the second year of Marshall Plan aid to the United Kingdom from April 2, 1949 to April 1, 1950, the Economic Cooperation Administration released 92 million pounds for short term debt retirement, 500 thousand pounds for technical assistance and 549 thousand pounds for the transportation of relief supplies. Altogether approximately 93 million pounds were released during the second year of the program.¹⁰²

Therefore, as of April 1, 1950, the Economic Cooperation Administration has agreed to the release of 199.5 million pounds of counterpart funds for debt retirement and 1.1 million pounds for other purposes. It should be pointed out, however, that since October 31, 1949 no counterpart funds have

¹⁰² For a comparison of the use of counterpart funds during the first year of the European Recovery Program as compared to the second year, see Table V on p.79.

TABLE V

USE OF COUNTERPART FUNDS BY UNITED KINGDOM

Use	Apr. 3. 1948 - Apr. 2. 1949a/		Apr. 2. 1949 - Apr. 1. 1950 b/		Two Year Total c/	
	Dollar d/		Dollar		Dollar	
	Local currency Equivalent (Thousands of Pounds)	Local Currency Equivalent (Thousands of Dollars)	Local Currency Equivalent (Thousands of Pounds)	Local Currency Equivalent (Thousands of Dollars)	Local Currency Equivalent (Thousands of Pounds)	Local Currency Equivalent (Thousands of Dollars)
Debt Retirement	107.450	433.0	92.000	351.1	199.450	784.1
Promotion of Production	17	0.1	500	1.4	517	1.5
Technical Assistance	17	0.1	500	1.4	517	1.5
Other Purposes	25	0.1	549	1.5	574	1.6
Transportation of Relief Packages	25	0.1	549	1.5	574	1.6
Total Withdrawals	107.492	433.2	93.049	354.0	200.541	787.2
a/ Source: <u>Local Currency Counterpart Funds, April 2, 1949.</u>						
b/ Two year total less first year amounts.						
c/ Source: <u>Local Currency Counterpart Funds, March 31, 1950.</u>						
d/ See fn. p.26 on "dollar equivalents."						

been released for debt retirement. The reason for this is that the Economic Cooperation Administration is making a study of the effects the use of counterpart funds for debt retirement had on a country's inflation, and until they get the results of this study they have blocked the use of counterpart funds for debt retirement. Nevertheless, the 160 million pounds of counterpart funds which have accrued in the special account since October have served as an anti-inflationary device due to the fact that these funds had to be taken out of circulation in order to be put into the fund.

In analyzing the United Kingdom's use of the counterpart funds one must keep in mind that the biggest problem facing Britain's economy is that of bringing its balance of payments into equilibrium, especially with the hard currency area.

The only way the United Kingdom can bring its balance of payments into equilibrium is to increase its production of industrial and agricultural products. However, due to the fact that Britain's labor force is already at full employment, the only way industrial and agricultural output can be increased is by increasing productivity.

During the first year and a half of the European Recovery Program it was felt by the Economic Cooperation Administration officials that the best use to be made of counterpart funds in Britain was for debt retirement, that is government owed debt to the Bank of England. As pointed out earlier it

was felt that if the United Kingdom used the counterpart funds for investment purposes it would only increase inflation. That may have been true at that time; however, by the middle of 1949 Britain had her financial house in fairly good order, and any further use of the funds in this manner would not be using them to the best possible advantage. With this idea in mind the Economic Cooperation Administration officials in October 1949 decided not to allow the United Kingdom to use the counterpart funds for any further debt retirement pending a review by the Economic Cooperation Administration. This seems like a logical conclusion on the part of the Economic Cooperation Administration.

If Britain's monetary and financial structure is as sound as the Economic Cooperation Administration officials think, and if the big job for Britain is to increase her productivity and thus alleviate her dollar gap, it seems very logical that Britain should use her counterpart funds in some manner other than debt retirement.

In order to facilitate best her recovery it seems as though Britain should use the counterpart funds for increasing her industrial and agricultural productivity. This could be done by allowing releases for the improvement of coal mining and other extractive industries. Also, with the shortage of living accommodations a large scale housing program could be partially financed with counterpart funds, thus aiding productivity. Another good use for which counterpart funds could be released would be the improvement of marketing methods. If

the United Kingdom expects to increase her exports to the Western Hemisphere she must improve her packaging and marketing techniques.

However, as was the case with France, even if the United Kingdom does do as much as is humanly possible and uses the counterpart funds in the most beneficial manner, the results cannot be consolidated unless a solution is found for the balance of payments problem. Therefore, England's ultimate recovery will depend a good deal upon the United States' economic policy in regard to tariff reduction.

WESTERN GERMANY:

Prior to World War II Germany ranked near the top in industrial production. Her industrial rank was due to the skills of her population, however, rather than to any great potential of natural resources. Nevertheless Germany did rank first in world production of brown coal and second in the production of electric power and steel. With the exception of coal, however, Germany had to import the largest part of her raw materials and in addition much of her foodstuffs. Even as late as 1939 Germany was producing only eighty-three per cent of her own foodstuffs. In order for Germany to balance her accounts she had to export large amounts of industrial equipment.

When the war ended in Europe on May 8, 1945 the German economy had for all practical purposes collapsed. Industrial

production was practically at a standstill, and at the same time the imports upon which the country was dependent virtually ceased. It was apparent that a good deal had to be done before any sort of recovery program could take shape.

Following the German surrender in May 1945 it was decided in August 1945 at Potsdam that the territory of Germany east of the Oder-Neisse River was to be under the jurisdiction of the Polish Government. The remaining area of Germany was partitioned into four zones of occupation. In the Potsdam agreement the allies had promised to coordinate the zones, administering Germany as an economic unit, but due to the inability of the four occupying powers to work out any sort of an agreement it was not long before each zone had become an individual and separate economic entity. Germany remained in this quartered position from August 1945 until the middle of 1946.

In July 1946 the Commander of the United Forces in Europe, under orders from Secretary of State James Byrnes, formally invited the representatives of France, Great Britain, and the Soviet Union to a quadripartite conference to discuss plans of establishing the economic unity of Germany. However, Great Britain was the only one of the three which would go along with the United States for this purpose.¹⁰³

¹⁰³Arnold Brecht, "Re-establishing German Government," The Annals of the American Academy of Political and Social Science, 267:31, January, 1950.

Thus, out of this decision came the economic merger of the United States and the United Kingdom zones. Actually it took until the end of 1946 before the merger was fully completed.

Twice during 1947 the foreign ministers of the United States, France and Great Britain met in conference with the representatives from the Russian government and again tried to work out a solution to German economic disunity, but to no avail. However, early in 1948 the three western powers were able to reach an agreement among themselves for the establishment of a German federal government in their combined area, and if Russia wanted to consent to it they would make it a quadripartite government. The Russians were not willing to go along with this proposal, but after a great deal of discussion, debate, and dickering on the part of the three western powers, the New Federal Republic of Germany (Bundesrepublik Deutschland) finally emerged in 1949.

Western Germany is confronted with three major problems. First her physical plant has to be rebuilt in order that she may produce the goods so necessary for her existence. Secondly, she must reorganize her economic and political institutions, and thirdly, she must find some way to overcome the dichotomy created by the separation of the Eastern territory from the Western. This separation of Germany into a Western and Eastern area has virtually strangled the economy of the country, due to the fact that the Western sector is largely

industrial and the Eastern sector predominantly agricultural.

The demographic statistics on Western Germany show that the population of this sector has increased tremendously since the termination of hostilities in 1945. This increase in population would not be so serious if it were not that the agricultural potential of the Western area is extremely limited and in addition, due to the Potsdam arrangement, much of the needed foodstuffs from the Oder-Neisse area are not going into the Allied area.¹⁰⁴ In order for Western Germany's population to maintain itself it must import nearly half of its basic food diet. To pay for these imported goods it must raise the level of its exported products to well above pre-war standards.

But how can Western Germany raise the level of its manufacturing exports? It was with this question in mind that Marshall Plan counterpart funds were released to Western Germany in 1949.

During the first year of the recovery program in Germany, very few Deutsche Marks were released. Of the 196.1 million Deutsche Marks that had accumulated in the counterpart fund for the Bizone's use only 1.7 million were approved and released for utilization within the Bizone. The total withdrawal of the first year was spent for the transportation of relief packages.

¹⁰⁴ See p.83.

In the first five months of the second year of the Marshall Plan there were still no major withdrawals of counterpart funds in the Bizone.

It was not until September 1949 that the Economic Cooperation Administration agreed to the first important withdrawal of Western Germany's counterpart funds. This first major release called for the utilization of 151 million Deutsche Marks. Of this amount 50 million Deutsche Marks were earmarked for capital investment loans to coal mine operators in the Ruhr. As pointed out by the Economic Cooperation Administration, coal output has made rapid strides in Western Germany since 1945, but in order for production targets to be met by 1952 even larger expenditures will be required. Besides the 50 million Deutsche Marks allocated for coal mining, an additional 44 million Deutsche Marks were released to provide the capital needed to complete a new power station in the western zone of Berlin. The completion of this power station will make the western zone of Berlin independent of the Russian sector's power, and it is expected to save 175,000 tons of coal annually for the western sector due to its efficiency of operation. In addition to the withdrawal for coal mining and electrical energy 40 million Deutsche Marks were released for railroad construction and improvement.

After the French zone was fused with the Bizone in December 1949 to form the Federal Republic of Germany, the

Economic Cooperation Administration assented to the withdrawal of large portions of Deutsche Marks for investment purposes.

At the midpoint of the four-year European Recovery Program Western Germany has withdrawn and allocated 1,405 million Deutsche Marks from the counterpart funds. When one remembers how much was released the first year, this figure looms very large.¹⁰⁵

The purposes for which withdrawals have been made have been categorized by the Economic Cooperation Administration into two major groups: (1) promotion of production or investment projects and (2) other purposes. Of the two categories the investment projects received the larger amount of counterpart funds, 869 million Deutsche Marks as compared to 536 million Deutsche Marks for so called "other purposes."

Approximately 220 million Deutsche Marks or one-fourth of the Western Germany counterpart funds released for investment production have been channeled into projects for rebuilding and expanding power plants in order that the industrial production of Germany can recover and along with it the German economy.

The coal mining industry has also received a large slice

¹⁰⁵For a comparison of the first and second year withdrawals of local currency counterpart funds in Western Germany, see Table VI on pp.88-89.

TABLE VI

USE OF COUNTERPART FUNDS BY WESTERN GERMANY

Use	Apr. 3, 1948 - Apr. 2, 1949 ^{a/}		Apr. 2, 1949 - Apr. 1, 1950 ^{b/}		Two Year Total ^{c/}	
	Local currency (Millions of DM)	Dollar Equivalent (Millions of DM)	Local currency (Millions of DM)	Dollar Equivalent (Millions of DM)	Local currency (Millions of DM)	Dollar Equivalent (Millions)
Promotion of Production	--	--	269.1	219.0	269.1	219.0
Agricultural	--	--	40.3	9.5	40.3	9.5
Coal Mining	--	--	101.8	28.3	101.8	28.3
Petroleum & Coal Products	--	--	20.2	4.8	20.2	4.8
Electrical Machinery	--	--	44.0	10.4	44.0	10.4
Machinery, except Electrical	--	--	20.1	4.8	20.1	4.8
Chemicals, except Fertilizer	--	--	19.3	4.6	19.3	4.6
Basic Textiles	--	--	7.1	1.7	7.1	1.7
Stone, Clay, & Glass Products	--	--	5.6	1.3	5.6	1.3
Primary Metals	--	--	3.1	0.7	3.1	0.7
Pulp, Paper and Paper Products	--	--	2.1	0.5	2.1	0.5
Rubber & Rubber Products	--	--	1.2	0.3	1.2	0.3
Misc. Manufactures	--	--	3.4	0.8	3.4	0.8
Electric, gas, & power facilities	--	--	219.3	57.1	219.3	57.1
Merchant & Fishing Fleet	--	--	49.5	11.9	49.5	11.9
Water Systems	--	--	13.7	3.2	13.7	3.2

a/ Source: Local Currency Counterpart Funds, April 2, 1949.

b/ Two year total less first year amounts.

c/ Source: Local Currency Counterpart Funds, March 31, 1950.

d/ See footnote p. 26 for "dollar equivalents."

TABLE VI (continued)

USE OF COUNTERPART FUNDS BY WESTERN GERMANY

Use	Apr. 3, 1948 - Apr. 2, 1949 ^{a/}		Apr. 2, 1949 - Apr. 1, 1950 ^{b/}		Two Year Total ^{c/}	
	Local currency Dollar (Millions of DM)	Equivalent (Millions of DM)	Local currency Dollar (Millions of DM)	Equivalent (Millions of DM)	Local currency Dollar (Millions of DM)	Equivalent (Millions of DM)
Railroads	--	--	41.4	13.1	41.4	13.1
Communication Facilities	--	--	3.5	0.8	3.5	0.8
Waterways & Harbors	--	--	2.0	0.6	2.0	0.6
Technical Assistance	--	--	1.0	0.2	1.0	0.2
Undistributed	--	--	270.5	64.4	270.5	64.4
Other Purposes	1.7	0.8	534.1	153.2	535.8	154.0
Payments to German Exporters	--	--	492.7	143.4	492.7	143.4
Housing	--	--	31.6	7.5	31.6	7.5
Transportation of Relief Packages	1.7	0.8	8.4	2.0	10.1	2.8
Tourism	--	--	0.3	0.1	0.3	0.1
Public Buildings	--	--	0.1	(e)/	0.1	(e)/
Undistributed	--	--	1.0	0.2	1.0	0.2
Total Withdrawals	1.7	0.8	1403.2	372.2	1404.2	373.0
^{a/} Source: Local Currency Counterpart Funds, April 2, 1949.						
^{b/} Two year total less first year amounts.						
^{c/} Source: Local Currency Counterpart Funds, March 31, 1950.						
^{d/} See footnote p.26 for "dollar equivalents."						
^{e/} Less than \$50,000.						

of local currency counterpart funds for the modernization and rehabilitation of mines. By April 1, 1950, 102 million Deutsche Marks had been released for this purpose.

Large sums of local currency funds have also been made available for capital investment to firms in essential industries. Altogether manufacturing industries have received 126 million Deutsche Marks with the electrical and other machinery, petroleum and coal products, chemicals, basic textiles, and building materials industries being the largest recipients.

Another large segment of counterpart funds has been released to assist agricultural projects. Some of the important projects included in the agricultural program have been the drainage of lowland areas, repatriation of qualified refugees, and loans to needy farmers to help them get back on their feet and re-establish their production.

Other important recipients of Marshall Plan counterpart funds categorized as investment projects were railroads with a grant of 41 million Deutsche Marks, merchant and fishing fleet 50 million Deutsche Marks and water systems 14 million Deutsche Marks.

Of the 536 million Deutsche Marks released for other purposes the largest portion, 492 million Deutsche Marks, was used to provide funds to pay German exporters for goods they sent to other countries under drawing rights extended by Germany under the intra-European payments plan. The occupied zones of Germany prior to the formation of the German Federal Republic

were required to deposit local currency into the special counterpart accounts to match conditional aid provided by the Marshall Plan, as well as for the grant aid benefits. However the other participating countries (since December 1949 this includes Western Germany) deposited local currency into the counterpart fund only for grant aid furnished by the Economic Cooperation Administration. As stated above these deposits made in Germany of funds matching Economic Cooperation Administration conditional aid were used to "make payments to exporters for intra-European trade, and were withdrawn only after specific Economic Cooperation Administration authorization."¹⁰⁶

The only other large benefactor of counterpart funds under the "other purposes" category was housing. The housing program is to furnish housing for the low income groups, who, through their lack of adequate housing, have not been able to produce adequately the goods necessary for Germany's recovery.

In any analysis of how the counterpart funds were and are being used in Western Germany or how they should have been used it is necessary for the student to keep uppermost in his thoughts the fact that Germany's basic problem during the first two years of the European Recovery Program was to rebuild her physical plant that she might produce the goods necessary to her survival.

It should also be noted that the Economic Cooperation Administration did not release any counterpart funds until well after the German currency reform in June 1948. In other words they were fairly sure that any funds released for investment purposes would not aggravate inflation to any great extent.

The uses for which counterpart funds have been released

¹⁰⁶Midpoint Review, p.14.

in Western Germany have for the most part shown a great deal of insight on the part of the Economic Cooperation Administration. Such industries as electrical energy, coal mining, agriculture, and railroads, the largest recipients, are excellent industries for which to employ the counterpart funds. However, there have not been enough funds released for housing projects. By the failure to release more funds for this purpose there has grown up a serious housing shortage. This housing shortage has affected Western Germany detrimentally in two ways: (1) it has made Western Germany's manpower immobile and (2) it has indefinitely postponed the transferring of refugees and other German workers to the right spot in clearing up the slums. In addition to the release of counterpart funds for housing in Western Germany it has been pointed out by many experts that there should be a releasing of funds to develop new processing industries, and also for new capital equipment.¹⁰⁷

Thus, it can be seen why the Economic Cooperation Administration has agreed to release counterpart funds in Western Germany largely for investment purposes.

ITALY:¹⁰⁸

Looking at Italy's economic development during the last three quarters of a century, it is possible to observe certain

¹⁰⁷"Germany", Atlantic Monthly, 184:11, July 1949.

¹⁰⁸This material on Italy's economic condition is taken largely from Economic Cooperation Administration, Italy Country Study, Washington D.C., February 1949.

features which give an insight as to why Italy's condition at the present is such as it is, and also what the future prospects for the country are. The first of three features observable is that the number of eligible workers has greatly exceeded the quantity of jobs available to these workers.

Secondly, agriculture has remained the chief form of employment and source of income even though a large part of Italy is not even conducive to agriculture.

A third reason for Italy's plight is that industrial expansion has not kept pace with the labor market. Thus, the pre-war per capita income in Italy was considerably less than in France, Germany, Great Britain, and the United States. Moreover, even within the country itself there was a considerable disparity of economic development and industrialization, which is borne out by the fact that the northern part of the country has a per capita income nearly double that of the southern provinces.

It was largely for two reasons that Italy's economic development was retarded especially in comparison with the United States, Germany, and Great Britain. The first reason given for Italy's slowness is that she did not have the natural resources necessary to make her a first class industrial leader. The second factor retarding Italy's growth was the fact that she did not unify politically until very late, thus delaying the development of industries and the formation of capital.

Italy's lack of natural resources coupled with a very dense population and a low per capita income naturally made her dependent upon foreign markets and supplies. However, due to her late entrance onto the modern industrial stage, Italy's industry arrived on the scene just when economic nationalism and protectionism were beginning to play such a dominant role in Europe's thinking. Thus, Italy's industry was restricted at the very time when it should have been allowed to expand.

Italy's lethargic rate of industrialization as compared to the rate of population growth and her agriculture's inability to absorb any more of the labor force has caused a large segment of Italy's population to be inactive as far as remunerative work is concerned. This is borne out by the fact that while Italy's population increases by 200,000 a year the average number of new jobs available each year amounts to only 50,000. Therefore, it is easy to see why she has so many more workers than jobs. The situation has been further aggravated by the fact that since 1913 the number of people emigrating from the country has been greatly restricted largely because of the immigration restrictions imposed by many countries.

It was in the years between World War I and II that large-scale urban unemployment became most vexatious. In the latter years of this period a growing degree of underemployment in Italian agriculture also became noticeable.

Thus, it is evident that Italy's unemployment problem is "chronic" rather than "cyclical," and that this problem has come about because jobs have not been able to keep up with the growth of the working population.

During World War II Italy's economy was shattered to a considerable extent. The cause of its shattering was due not only from physical punishment, but also from inflation, the termination of trading agreements, and the complete breakdown of Italian government and administration.

The postwar reconstruction job in Italy divides itself into two problems. The first, which is a short run problem is one of getting the existing industrial plant into full production. The second problem is more difficult in that its objective is to overcome something that has been prevalent in Italy for years, namely that of correcting the disparity between the number of eligible workers and the number of industrial and non-agricultural jobs. The European Recovery Program hopes that it can help to find a solution to these problems.

In 1946 and the greater part of 1947, Italy's industrial output increased considerably over what it had been during the war. In fact by October of 1947 production had reached about 90 per cent of what it had been in 1938. The supply of raw materials and coal restricted production somewhat, but this was offset by the strong inflationary pressures, the rapidly rising prices, and the consequent growth of large inventories.

However, during the latter part of 1947 the Italian Government initiated strong anti-inflationary measures, which in turn caused a sharp drop in prices and consequently production fell off. Nevertheless, since the inception of the European Recovery Program in the spring of 1948, industrial production in Italy has been increasing.

It was evident to the Economic Cooperation Administration officials in 1948 that if they wanted to aid Italian recovery, they would have to find some way to restore industrial activity and along with it the formation of new capital. They saw that it was all important to Italy that both industrialization and agricultural development should be accelerated and that more adequate transportation facilities be made available.

Under these conditions it was felt by the Economic Cooperation Administration Administrator and the National Advisory Board that an investment program represented the most propitious use to which the counterpart funds could be put.

During the first year of the Foreign Assistance Act only 28 billion lire of counterpart funds (equivalent of 48.7 million dollars) was actually used by the Italian Government. The first year's withdrawal was used entirely for financing railroad construction.¹⁰⁹ There were, however, releases

¹⁰⁹ The first year withdrawals were made from counterpart fund accruals under Public Laws 389 and 84 (Eightieth Congress).

approved in principle by the Economic Cooperation Administration for national budget purposes, but they were made subject to further review before the country could actually withdraw the funds.

During the second year of the European Recovery Program, the amount of counterpart funds released and actually used came to a total of 69.5 billion lire. The largest recipient was the railroad industry with an allotment of 26.1 billion lire followed by agriculture with 12.3 billion, housing 8.5 billion, merchant and fishing fleet 4 billion, health and sanitation 1.2 billion, technical assistance 500 million, and 13.1 billion lire left undistributed.¹¹⁰

Thus, by the end of the Foreign Assistance Act's second year of activity the Italian government has used 97.5 billion lire or the equivalent of 162.5 million dollars for the rehabilitation of its economy.

So far 54.1 billion lire have been used by the Italian government for the rehabilitation of the Italian State Railways. Even though the Italian railroads have made a great deal of recovery since the war, they still have a long way to go before they reach their pre-war condition. The largest part of the 54.1 billion lire release has been used for the replacement and repair of rolling stock.

¹¹⁰For a comparison of the first and second year withdrawals of local currency counterpart funds in Italy, see Table VII, on p.98.

TABLE VII

USE OF COUNTERPART FUNDS BY ITALY

Use	Apr. 3, 1948 - Apr. 2, 1949 ^{a/}		Apr. 2, 1949 - Apr. 1, 1950 ^{b/}		Total ^{c/}	
	Local currency (Billions of Lire)	Dollar Equivalent (Millions)	Local currency (Billions of Lire)	Dollar Equivalent (Millions)	Local currency (Billions of Lire)	Dollar Equivalent (Millions)
Promotion of Production	28.0	48.7	45.7	74.8	73.7	123.5
Railroads	28.0	48.7	26.1	42.7	54.1	91.4
Agriculture	--	--	12.3	19.8	12.3	19.8
Merchant & Fishing Fleet	--	--	4.0	6.9	4.0	6.9
Technical Assistance	--	--	0.5	0.8	0.5	0.8
Undistributed	--	--	2.8	4.6	2.8	4.6
Other Purposes	--	--	23.8	39.0	23.8	39.0
Housing	--	--	8.5	13.8	8.5	13.8
Misc. Social Service	--	--	2.0	3.3	2.0	3.3
Tourism	--	--	1.8	2.9	1.8	2.9
Health & Sanitation	--	--	1.2	2.1	1.2	2.1
Undistributed	--	--	10.3	16.9	10.3	16.9
Total Withdrawals	28.0	48.7	79.5	117.8	107.5	162.5
a/ Source: Local Currency Counterpart Funds, April 2, 1949.						
b/ Two year total less first year amounts.						
c/ Source: Local Currency Counterpart Funds, March 31, 1950.						
d/ See fn. p.26 on "dollar equivalents."						

The second largest recipient of counterpart funds in Italy has been the agricultural industry. The total sum released for agricultural purposes has been 12.3 billion lire. The agricultural programs under the European Recovery Program in Italy have been designed for two purposes, first, to increase food production, and second, to create jobs which will counteract the serious unemployment problem. Some of the major projects that have been taken up include land reclamation projects in the Volturno river valley, the Sele river area, and on the island of Sardinia. In this process of reclamation swamps will be drained thus helping to eradicate malaria, parched areas will be irrigated, and in other areas flood control measures will be carried out. Agricultural projects already underway in Italy should increase production on approximately 280,000 acres of farm land and directly aid 70,000 farms. At the time of this reporting most of the agricultural aid has taken place in Southern Italy.

The other large recipient of Italian counterpart funds was the housing industry which received 8.5 billion lire. These housing counterpart funds comprise a portion of the 360 billion lire housing programs that Italy has set up for herself, projects in which she hopes to construct 900,000 rooms.

Other important uses of Italian counterpart funds include: the merchant and fishing fleet industry, the tourist

trade, the purchase of scientific equipment for research purposes, and the promotion of health and sanitation.

In addition to the 97.5 billion lire actually released and used by Italy an additional 90.1 billion lire has been approved for withdrawal, but as of April 1, 1950, had not yet been withdrawn. Of this 90.1 billion lire, 66.8 billion has been earmarked for railroads, 9.4 billion for agriculture, 1 billion for technical assistance, 1.2 billion for health and sanitation, 300 million for housing, 400 million for miscellaneous social services and the remaining 9 billion classified as undistributed.

The important things to remember when analyzing the uses of counterpart funds in Italy is that the first problem to be overcome is that of getting the existing industrial plant into full production.

With this idea in mind the Economic Cooperation Administration has released counterpart funds for the reconstruction of rail facilities, agricultural rehabilitation, ship reconditioning and housing.

The counterpart funds that the Economic Cooperation Administration released to Italy during the first two years of the European Recovery Program were for worthy projects, but they were not enough. During the remainder of the European Recovery Program more counterpart funds should be released for approximately the same purposes as for the first half of the program.

The Italian railroad system is still a long way from its pre-war capacity and thus needs a great deal of aid. The agricultural industry still needs many additional funds especially for land reclamation. More funds are also required for the housing program, for without adequate housing production will be considerably lower than it would be with good housing.

It is easy to see why Italy has used the largest portion of its counterpart fund releases for production promotion rather than debt retirement. In the first place Italy took rather drastic measures on her own early in 1948 to halt the impending postwar inflation. She made it evident to the Economic Cooperation Administration that it could go ahead and release counterpart funds for investment purposes without it provoking inflation. A second reason for the release of the funds for production promotion is that at the end of the war there were over 2,000,000 unemployed men in Italy and the only possible way to get them any work was to increase industrial production. However, as pointed out before but which bears repeating, the Economic Cooperation Administration released the funds only to industries which could increase production and thus alleviate any tendency toward inflation by putting more goods on the market. A third reason for the Economic Cooperation Administration's having released counterpart funds to Italy for production purposes is that Italy still needs to import large quantities of goods from the dollar

area, and if she is to become self-supporting by 1952 or 1953, she will have to build up her own production facilities in order to trade with the dollar area for the goods she needs.

Italy still has a very long way to go to become self-supporting, but there have been some signs of success of which the counterpart funds can take partial credit.

CHAPTER IV

INTRA-EUROPEAN PAYMENTS PLAN

In Chapter II brief reference was made to the intra-European payments plan. This plan is an important and vital part of the Economic Cooperation Administration counterpart fund device.¹¹¹

The Agreement for Intra-European Payments and Compensation as it is formally known is one of the most significant results of cooperative action on the part of the European nations to date.

Prior to World War II the European Recovery Program countries carried on forty to fifty per cent of their total trade between themselves. In fact pre-war imports of the participating countries were four times greater from each other than they were from the United States. Starting at the outbreak of World War II the United States fast came to the front as a supplier of goods to the European countries and by

¹¹¹ Complete figures on the respective aid given to the individual participating countries under the intra-European trade were not available. However, as the intra-European payments plan is an integral and important part of the counterpart fund device it was felt that some explanation, at least as to how the plan works, was germane. The amount of trade actually financed under the intra-European payments plan was approximately \$675 million (fourteen per cent of the total Economic Cooperation Administration aid) during the fiscal year 1948-49, and approximately \$600 million during the fiscal year 1949-50.

1947 was supplying the participating countries with nearly as many goods as they were getting from each other. However, by 1948 imports by the participating countries from each other were over fifty per cent greater than what they were receiving from the United States.

From the above statements it can be seen that trade among the European countries is still of importance. Some of the main items of trade include coal, potash, and iron ore from France, woodpulp and iron ore from Sweden, fruits and vegetables from Italy, as well as many other items too numerous to mention.

The job that confronted the European countries in regard to reviving mutual trade loomed very large at the end of the war. The conditions and mechanism that had been the basis for most of Europe's trade were destroyed during the war. Price systems were extremely out of line, with black markets predominating in many areas. The currencies of the various countries were for the most part inconvertible, and exchange rates were largely artificial. In addition the reserves in gold and hard currency were held by the country who was fortunate to have them in order to pay for the all important goods from the dollar area. With these conditions it can readily be seen why the European countries resorted to trade and payments agreements.

Under the trade and payments agreements the European countries exchanged specified categories of goods. Usually

these agreements were of a bilateral nature, and called for goods to be shipped from one nation in turn for goods from another nation. For example if country A, according to the bilateral agreements, shipped a greater value of goods to country B than it received from country B, then B had to make up the balance by granting A a line of credit for the balance to be drawn on the central bank in country B. These reciprocal credits eliminated the day-to-day balancing of accounts, and permitted the agreement countries to build up creditor and debtor positions over a period of time.

As crude as the trade and payments agreements were they did revive intra-European trade for a short period of time, however, it was not long before the system broke down of its own weight (1947). During most of 1947 practically no progress was made in the expansion of intra-European trade. It became more and more difficult for the countries to settle their balances, and at the same time the Western European nations were finding it more difficult to finance their necessary purchases from the Western Hemisphere. As a result of this the debtor countries in Western Europe became adamant about transferring gold or dollar balances to settle their accounts with the creditor nations. Thus, the creditor countries would not extend new credits to the debtor nations. As pointed out by the Economic Cooperation Administration "what had once seemed so desirable to most countries as to be termed a 'favorable' balance of trade was now

renamed 'unrequited exports' and was considered as the worst of economic blunders."¹¹²

With trade between the countries of Western Europe retarded because of an inability to get together on a means of payment it became very important that some sort of an arrangement be made whereby the European countries could find some basis to trade with each other.

With this idea in mind the Office of European Economic Cooperation when it met in Paris in October of 1948 drew up a plan which provided the first step toward establishing convertibility of currencies and allowing trade to take place between the participating countries. The way this plan works is for the participating countries to estimate the surpluses and deficits they expect to have with each country during a stipulated period of time. After these estimates are discussed and agreed upon the creditor country establishes an account in its own currency in favor of its debtor to the amount of the anticipated deficit.

Under the intra-European payments plan these accounts are called drawing rights and are issued as grants rather than as lines of credit as under the bilateral trade and payments agreements.

To give a simple example of how this intra-European payments plan works let us take for illustrative purposes two participating countries, say France and Italy. Let us say that France exports to Italy \$160 million worth of goods,

¹¹² A Report in Recovery Progress and United States Aid, February 1949, p.99.

but in return Italy exports to France only \$100 million worth of goods. Prior to the intra-European payments plan Italy would probably not have been able to secure the additional \$60 million worth of goods and services. Under the October 1949 agreement, however, France agrees to grant to Italy drawing rights in French francs up to the equivalent of \$60 million.

The next step in the program is to relate these drawing rights to Economic Cooperation Administration dollar aid. France, though a creditor of Italy, has a dollar deficit with the Western Hemisphere. Therefore, the next play is made by the United States in that it makes \$60 million worth of aid available to France providing France grants Italy the equivalent of \$60 million in francs. To put it simply France earns the \$60 million by passing on an equal amount of aid to Italy in the form of goods and services. The outcome of the whole procedure is that France now has \$60 million to finance the purchase of necessary materials from dollar areas and thus these allotted dollars "perform a dual function without additional cost to the United States."¹¹³

The next question is how does the counterpart fund device get into this intra-European payments plan. According to the Foreign Assistance Act of 1948 the country that receives the conditional aid (France in the illustrative example) does not have to put any local currency into the

¹¹³Ibid.

counterpart fund, however, the country which receives the so called drawing rights (Italy, in the above example) is required to deposit local currency commensurate in value to the amount of drawing rights obtained. Thus, in the French-Italian example Italy would have been required to deposit lire equivalent to \$60 million worth of French francs in local currency counterpart fund. These funds are subject to the same stipulations as those deposited in any other fashion.

It should be pointed out that, although in the eyes of many people the intra-European payments plan is a crude sort of an arrangement, nevertheless it has been very influential in augmenting the total transfer of goods, and services under the European Recovery Program.

CHAPTER V

CONCLUSION

The idea or device whereby the various European Recovery Program countries receiving commodities and services financed by Economic Cooperation Administration grants are required to deposit commensurate amounts of local currency into special accounts appears to be a good one.

By means of a device such as this the United States is able to do double duty with the funds it allocates in the form of grants and conditional aid to the participating countries. Not only is the Economic Cooperation Administration able to give the participating European areas much outright assistance in the form of grants-in-aid, but is also able to direct the use of the special account local currency funds in such a manner that it will aid the recovery of the respective country, and in turn benefit the United States.

The literature discussing how the grant-in-aid portion has contributed to the recovery of Europe has been voluminous, but there has been very little written on the achievements of the counterpart funds. It is this counterpart portion which has been very important in promoting industrial and agricultural recovery, and monetary and financial stability throughout the Western European area. In addition the conditional aid and net drawing rights utilized under the

intra-European payments plan have made possible a much larger volume of intra-European trade than was ever possible under the old trade and payments agreements.

Many people in this country were afraid that the United States through the use of the counterpart funds was going to intrude excessively in the domestic policies of the participating countries. The Economic Cooperation Administration has not refrained entirely from intervention in domestic policies, but there is some justification for the position that the United States should have some say in the affairs of the areas into which she is pouring billions of dollars. All in all, although there have been some difficulties and some protests, it appears that the Economic Cooperation Administration missions have handled this phase of the European Recovery Program quite well.

For the most part the counterpart funds have been released for domestic investment; but counterpart funds have also been released for repayment of debt and as a substitute for additional borrowing from the Central Bank.

The first conclusion to be reached about the release of counterpart funds to Western Europe is that they have definitely been a factor in aiding the recovery of Europe during the first two years of the Foreign Assistance Act.

In France the local currency counterpart funds have helped to increase the production of the country in nearly every industry to a level above that of the pre-war period.

In addition France has used the funds when necessary for effective reduction of the public debt. In the United Kingdom counterpart funds have been effectively used for debt retirement, thus curbing inflationary tendencies. However, in the foreseeable future they will probably also be used in Britain for production promotion. In Italy and Western Germany the counterpart funds have been used almost exclusively for industrial and agricultural promotion due to the fact that the most important objective of these two countries was to produce the goods necessary for their survival.

During the first two years in which the counterpart funds have been released by the Economic Cooperation Administration, they have been used largely to enable Western Europe to put its house in order. However, the local currency funds to be released during the latter half of the European Recovery Program will probably be to enable the Western European area to close its dollar gap. There will be an attempt to promote those industries able to produce goods for export, and in addition there will be releases for the purpose of improving and increasing production. Therefore, it is likely that an even smaller proportion of the funds will be allocated for debt retirement during the latter half. It is thought by the Economic Cooperation Administration that inflation is largely under control in most of

the participating areas and that the primary objective now is to get production rolling in order that goods can be exported, thus allowing the participating countries to become largely self-supporting by 1952.

The counterpart funds will play at least as large a role during the second two years of the Foreign Assistance Act as during the first years. The reason for this is that during the second half there will probably be a larger proportion of funds allotted to Europe in the form of grants. Many people seem to think that it would be a great mistake to advocate further loans to Western Europe.

However, with the goal of increasing the production of Western Europe to the extent that it can export goods and become self-supporting nearing accomplishment the predominant problem facing these countries is to increase their volume of trade. France, England, and some of the less important participating countries have reached this stage and soon this same trading problem will be facing nearly all of the participating nations. In order for these countries to get the dollars needed, they will have to ship goods to the Western Hemisphere, predominantly to the United States. The job or role of the United States and the rest of the Western Hemisphere countries is to buy these European goods whenever possible. By this it is not meant that we should buy goods from these countries when we can produce them more cheaply ourselves, but that we should purchase them when they bring

about an actual saving to us. In other words we should make an honest attempt to reduce our tariffs and break down some of the needless restrictions that now hamper our purchase of foreign goods.

Barry Bingham, Chief of the Economic Cooperation Administration Special Mission to France at an address delivered before the American Society of Newspaper Editors in Washington D.C., pointed out that we have three alternatives in France for 1952: (1) "we can support the French with American tax money," (2) "we can abandon the French, risking a communist victory and loss of an important market for our farms and factories" or (3) "we can lower our tariff barriers to a reasonable degree and buy from France, so that she in turn can buy what she wants and desperately needs from us." These statements by Mr. Bingham could well be applied to the whole of Western Europe.¹¹⁴

If the United States does not tackle and solve this trading problem of Western Europe's, the participating countries will not be able to become self-supporting by 1952. Mr. Bingham stated it very well when he said, "The nations of Western Europe will be forced to discard the Marshall Plan crutch without yet being able to walk by themselves."¹¹⁵

¹¹⁴ Barry Bingham, Vital Speeches of the Day, p.479.

¹¹⁵ Ibid., p.480

Thus, no matter how beneficially the participating countries use their funds, unless the United States breaks down its tariff barriers and stops protecting industries that should not or need not be protected, Western European recovery will not be achieved.

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