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A DRAFT REPORT
SUBMITTED BY THE UNITED KINGDOM DELEGATION
TO THE
DRAFTING SUB-COMMITTEE OF THE TEMPORARY
SUB-COMMISSION FOR THE RELIEF AND
RECONSTRUCTION OF DEVASTATED AREAS

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NOTE BY U.K. DELEGATE

In view of the limited time available to the Drafting Committee, the U.K. Delegation have prepared the attached contribution to the Committee's work and to the eventual report of the Sub-Committee. It represents not a formal statement of the U.K. attitude to the various matters discussed, but a possible starting point in the search for agreed findings.

It has been prepared under conditions of extreme pressure and will no doubt have to be revised or supplemented in the light of the reports from the touring parties. The figures, which are drawn from a variety of sources believed to be reliable, are the best that it has been possible to obtain in the circumstances. It has not, however, been possible in all cases to verify them from U.K. sources, and they are therefore not to be regarded as in any sense official U.K. figures.

We have deliberately concentrated on those aspects of the problem where we felt that our contribution could be most effective and helpful. The Secretariat already has so much material on a country to country basis that we have thought it unnecessary to duplicate their work on this part of the report. We have, however, thought it desirable to prepare two statements enclosed as appendices, one relating to the position of the United Kingdom which we should like to see utilised in the Country Section of the Sub-Commission report, and one relating to Germany, which has already been forwarded to the Secretariat to assist them in any attention they may be devoting to the place of Germany in the European economy.

In formulating recommendation 4, which deals with Post-War Economic Co-operation in Europe we have had the advantage of discussing with the U.S.A. Delegation a proposal of their own on the same subject which we understand is being submitted to the Secretariat for consideration by the Drafting Committee.

PAKENHAM

23rd August, 1946

PART I - INTRODUCTORY

DEVASTATED EUROPE

For over five years of war the greater part of the Continent of Europe was an island cut off from the outside world to which it had been knitted by a century of trading. The island was for four years under ruthless, all-pervading National-Socialist control; its men and women, towns and villages, factories and fields, mines, rivers and railways, were worked to fuel the German war machine. Its economy was plundered and distorted into new shapes by the National-Socialist effort to make it self-sufficient, dependent on Germany, and independent of the outside world which had sent it food and raw materials and the small luxuries of the ordinary man and woman. This process was not itself devastation; but it did vital damage to a complicated system of human and financial relationships which in three generations had raised the living habits of the mass of Europeans from primitive levels.

Over this distorted island of Europe swept three tides of destruction. Firstly, the German aggression of 1939-40, eastwards into the depths of Poland, southwards to the eastern Mediterranean, westwards and northwards to the Channel and the North Sea. The fighting and the plundering destroyed dwellings and places of work, bridges, roads, lochs and railways. As men and women fled, or were killed or herded away, with their cattle and animals, the crops were neglected, markets broken up, and distribution of food and goods stopped or slowed down. Recovery from this first wave of war was organised by the Germans, in their own interests and according to their patterns.

Then came the second tide of destruction, the German invasion and occupation of Western Russia, which created havoc in the Ukraine and White Russia, in the Crimea and the northern Caucasus. And as the tide receded with the German retreats and the Russian pursuit, it spread for two years over the industrialised and food-producing peoples of the east, Poland, Czechoslovakia, Hungary, Roumania, and Austria, to the confines of agricultural Prussia and Saxony and Silesia. The third tide of destruction came from the south and the west; Italy, France, Belgium, Holland, Luxembourg and western Germany were fought over by the allied and German armies for twelve hectic months; many of the richest, busiest regions of Western Europe were devastated and depopulated, some of them crippled for years to come. And for three years the master state of Europe was itself being systematically devastated by Allied bombers and exhausted by the National-Socialist regime's effort to pull the last ounces of energy out of the German economy.

There is something more to be done in Europe than the repair of this devastation, which is commonly called reconstruction or rehabilitation. There is also a task of breaking and straightening out the economic patterns imposed by the Germans, in some countries with the help of collaborators. This is being attacked side by side with the efforts of almost all liberated countries to establish new conditions of life through parties committed to policies of

national planning, which range from full State control of production and consumption, through semi-socialist planning, to something like the free enterprise of pre-war times. Yet within this varied and confusing picture of Europe struggling to recover from five years of German economic direction there is one common feature: the effort to obtain as quickly as possible the food, the clothing, the houses and the transport without which the ordinary man, woman and child cannot live.

Side by side with the international effort, made by such bodies as U.N.R.R.A. and the European Coal Organisation to share equally the short supplies available, and to graduate and spread evenly the processes of recovery by consultation and planning ahead, go individual national efforts to buy and sell where the easiest and closest opportunities offer. With currencies out of line, with prices and costs unrelated or unrelatable, with lack of transport limiting the range and volume of deliveries, countries are at present using the primitive and cumbersome methods of barter to those of normal commerce, binding themselves to neighbours big and small, though so far only for short periods. Already there exist over 80 European bilateral trade agreements, spread over 22 countries, and there are more on the way. The tendency is simply explicable; it comes from the desire of the peoples at all costs to rise as quickly as possible above the level of mere survival. In many cases there has been no practical alternative to such short-term bilateral methods of rebuilding trade. But should they turn out to be more than temporary expedients and based on considerations not strictly commercial, they will in the long run obstruct the reconstruction of trade on the basis of competitive efficiency.

Continental Europe cannot, and has known that it cannot, recover its former standards of living and production without imports from outside. This is true in the long as well as in the short run. Even when Europe is providing something like its normal quota of cereals, meat and dairy products, it will still need to import the extra foods and household luxuries from outside. In 1945 cereal production over large parts of Europe was less than 60% of pre-war levels; at least half the devastated lands had lost a year ago half their cattle, pigs and poultry. Above all will Europe need to import for its industries the raw materials without which cannot be produced the goods which will earn foreign currency. In the prosperous year 1938, the net annual imports from abroad of Continental Europe (excluding the U.K. and the U.S.S.R.) cost over 1,000,000 dollars. Since the war ended the United States have granted to the devastated nations of Continental Europe over 1,000 million dollars in credits for reconstruction. Add to these 2,400 million dollars in relief imports allocated up to the end of 1946 by U.N.R.R.A. on behalf of non-Continental countries, the credits recently asked for by Belgium, Yugoslavia, Greece, Czechoslovakia, Poland, and Italy, and the picture of Europe's dependence on imports for recovery and prosperity is as striking as it is clear. Detailed study of her needs for 1947 has yet to be made, but would probably show that financial assistance will still be needed.

Her inability to pay for such a volume of imports - inadequate though it is for the full purposes of recovery - is the measure of Europe's weakness now and for some time to come. Her exports increased only slightly in 1945 and remained far below the 1939 level. Devastation and distortion, hunger and privation, the killing and the neglect of men have reduced by something like a third her capacity to produce - and without production she cannot trade. When we try to find out in detail why these countries cannot produce more we find the causes in facts that the war created. When this summer began, 100 million people in Europe were being fed at a level of 1500 calories or less - the level at which health suffers severely and working capacity is quickly reduced or destroyed. Another 40 million were living at the little less dangerous level between 1500 and 2000 calories. We know little of the position in Russia, but it is probably correct to say that 30 per cent of the people of Europe are reduced to a diet which has grave physical effects even over a period of a few months. Europe's food production alone cannot bring them back to normal health.

These people are also desperately short of houses, domestic equipment, tools, clothes, and footwear. Thousands of the young men and women among them have had no training in skilled work. Generations who would have taught them have in some countries been wiped out. The casualties in killed, disabled, missing and deported persons are classified as "scarcity of man-power", but the economic loss cannot be estimated in figures alone, appalling though those are. Excluding Soviet Russia, for which official figures are not known, the devastated countries of the Continent have lost over sixteen million men and women, over six million of them in Poland and one and a half million in France.

If man-power is short, how much shorter is the material power which drives the factories and the transport. Western Continental Europe is producing coal at 30 per cent below the pre-war rate. Even Eastern Europe, although Czechoslovakia and the U.S.S.R. are believed to be nearly back to normal, is still well below pre-war levels. production is low because output per man-shift has fallen; in many places because miners have not enough to eat, in others because there are no recruits to the mines from the surviving young men, everywhere because machinery has been destroyed or overworked. Devastated Europe is crying out for a coal surplus from prostrate Germany or from devastated Poland.

Take one or two examples of the dilemmas in which European countries now find themselves. Czechoslovakia, which has had her economy disturbed by German occupation, could even now produce coal and sugar, glass and steel goods which Europe needs, but she has not the capital equipment or the raw materials to do so on an adequate scale. If these cannot be bought outside Europe by exports they must be bought on credit. Poland has coal to sell: but coal will not earn the dollars needed to buy the food and raw materials which would feed the men and machines of her textile and chemical industries. Again, much of the food Poland needs was once grown in Europe, even in Poland itself; but the farms that produced it need fertilisers, and machinery, and animals, and seeds. The bulk of the fertilisers must come for the time being from outside Europe, because her synthetic ammonia industries, gasworks and coke ovens have not the fuel they need. Animals must be bought for years to come from outside. The machinery is needed more quickly than local industry can produce it.

Whether they survey their foreign trade prospects or their reconstruction tasks at home, all devastated countries face serious transport problems. Europe's losses in locomotives and goods trucks were crippling; bridges, stations, permanent ways and signalling systems will need reconstruction and repair for years to come before the continental transport system returns to normal. Movement on the great rivers which run through the Continent - particularly on the Elbe, the Oder and the Danube - lags far behind the level which should have been reached 12 months after the war. There are as many political as technical reasons for this. If any problem demands a European approach it is this one: the stagnation on the Danube affects eight nations: the state of the German railways interests Czechoslovakia because she has trade to do with the west; it also interests France which needs Polish coal; it also interests Denmark and Sweden, old customers of the Ruhr.

Here then, in the key matters of food and clothing, fuel, transport and raw materials, Europe has to struggle out of the vicious circle: insufficient food and clothing mean low human output: low output and scarcity of workers, fuel and raw materials mean low production in agriculture as well as in industry: low production means inability to buy - as distinct from borrowing - essentials from abroad. It is from this vicious circle that international relief, the beginnings of international planning and the policy of the creditor nations are trying to pull the devastated countries. The latter struggle with more modest means to restore trade among themselves by bilateral barter or compensation transactions, supplemented by small grants of credit.

Some of the little that is now being produced in devastated Europe is passing across its land frontiers in the form of reparations. For example, among ex-enemy countries, Finland is exporting annually some 25% of her pre-war export figure in reparations, Hungary and Rumania some 50% of theirs. And Germany, the producer at the heart of Europe which once provided much of the essential capital equipment of eastern Europe and much of the fuel, fertilisers, chemicals and manufactured goods of central Europe, is not only among the worst devastated countries of the Continent but potentially its heaviest payer of reparations.

Because of the present prostration of Germany and the level of industry fixed for her by the controlling Powers, that part of the pattern of world trade which was once shaped by exchanges between Germany and the rest of the world cannot return to the pre-war norm. Three years hence she will have to offer only a fraction of the iron and steel manufactures, chemicals and fertilisers, machinery, and electrical equipment that she exported ten years ago. This fall in production at the heart of Europe must be counted as a major factor in the situation, whether it is regarded as a present loss to reconstruction or as a future opportunity for Germany's neighbours to take her place. The attempt to make good the loss may well have a decisive influence on the shape of the whole European economy.

Not the least vicious of the legacies left by German rule and devastation is the currency inflation with which most of its victims are still struggling. There is available in most countries more purchasing power and far more eagerness to increase consumption and restore equipment than are needed to absorb the limited goods and services available. Generally

speaking, the countries of western and northern Europe appear to have had more success in reducing or blocking this excess of purchasing power than some of those in eastern and south-eastern Europe, where heavy public expenditure, low revenues, and - in the case of ex-enemy countries - the support of occupying forces and the strain of reparation payments have all encouraged inflation. In such conditions even a rapid increase in production - hampered by the obstacles already described - will not be enough to ensure that currencies can be brought into stable relations, reflecting comparative price levels and costs of production. The goal for each country would have to be the free acceptance of its currency as convertible into other stable currencies, involving membership of the International Monetary Fund and the International Bank for Reconstruction and Development. So long as such stable relations are absent, so long will be delayed a return to the strictly commercial, non-discriminatory exchanges of the years before Germany's economic policy began to dominate her neighbours. Whether there are other tendencies, inherent in the political and economic programmes of the post-war governments, which will reinforce these exclusive tendencies and lead to the formation of economic blocs within Europe restrictive of trade remains to be seen. Such tendencies could not be easily reconciled with the present dependence of Europe on that assistance - whether through relief or credit - from international bodies and from countries outside the European continent which has been shown to be essential.

The two most urgent needs for the devastated countries are; firstly, to increase production for export and the free exchange of goods within Europe; secondly, to ensure that imports of raw materials and essential foods reach Europe from outside. It is as certain as any economic forecast can be that until after the 1947 harvest there will be not only a European but a world food shortage: that European production in the countries most needing food and raw material imports will not be able to provide a surplus to pay for more than a part of the imports they require: that the devastation of industrial equipment all over Europe, but particularly in Germany, will make it impossible for the countries hardest hit to restart and re-equip their industries from exclusively European sources for several years to come.

The situation is evidently one demanding concerted action: not only co-operation between neighbouring nations and within groups of Governments, but also consultation and mutual help through effective international machinery.

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PART II THE SITUATION IN EUROPE TO-DAY

INTRODUCTORY

Over wide areas of Europe, when the fighting ceased, industry, mining and transport had been brought almost to a standstill; and within a few months there was an acute food crisis, accentuated in Southern Europe by one of the worst droughts on record. In the summer of 1945, twelve months after the collapse of Germany, while the effects of devastation are no less in evidence, transport and employment in industry are improving, and hitherto the threat of widespread pestilence and famine has been, by a narrow margin, averted.

At the lowest point touched immediately after liberation, industrial production was reduced to less than 20 per cent. of pre-war in France, Belgium, the Netherlands, Greece, Poland and Yugoslavia. A year later, there had been a marked improvement in the West to a level ranging between 60 and 75 per cent. In Eastern Europe the improvement was less general; in Poland the index of production reached 60 in December 1945, in Finland 55, and in Yugoslavia and Greece about 35. Revival of rail transport was a main contributing factor. In France, it had reached 75 per cent. of the 1938 level, and was expected to reach the pre-war level by the end of 1946. By the end of 1945, the railways were functioning at about 40 to 50 per cent. in Czechoslovakia, 35 per cent. in Poland, and 30 per cent. in Yugoslavia.

The varying rates of recovery in different countries, in comparison with some countries outside Europe, are brought out in the following table:-

TABLE I.

General Index of Industrial Production.

Base 1939 = 100.

	<u>Average</u> <u>1945</u>	<u>Feb.</u>	<u>1945</u> <u>July</u>	<u>Dec.</u>	<u>Feb.</u>	<u>1946</u> <u>Apr.</u>	<u>May</u>
Canada	217	228	218	185	179	188	-
U.S.A.	186	217	193	150	139	151	147
Belgium	35	17	33	58	69	75	-
Denmark	73	77	65	82	89	88	72
Finland	51	41	51	55	59	61 (Mar.)	-
France	-	-	44 (Aug.)	63	73	-	-
Norway	65	64	43	74	91	94	98
Sweden	85	68	93	101	102	103	103

(Source: League of Nations, Monthly Bulletin of Statistics, July 1946.)

In Europe as a whole crop production in 1945 fell to about 60 per cent. of pre-war, and the output of meat and other

livestock products to an even lower level. In July, 1945, average food consumption in liberated countries ranged from 65 to 75 per cent. of the pre-war level. In March, 1946, it was still between 60 and 80 per cent., while in Germany and Austria, and in isolated parts of Greece, Poland and Yugoslavia, it was below 50 per cent.

In some of the worst devastated countries the assistance received from UNRRA was of decisive importance in preventing widespread famine and in promoting the first steps in rehabilitation.

UNRRA shipments to countries in Europe up to the end of June, 1946, totalled 11.7 million tons, of which food accounted for 5.3 millions, industrial equipment 3.85 millions, agricultural supplies nearly 800,000, and clothing, textiles and footwear 300,000.

The total value of shipments proposed to be made to the 31st December, 1946, is \$2,400 m. - Poland 474 m., Yugoslavia 429 m., Italy 425 m., Greece 358 m., Czechoslovakia 270 m., Ukraine and Byelorussia 250 m. Sixty per cent. of this total had been fulfilled by the end of June, 1946.

The restoration of consumption levels must obviously depend on greater production and improved distribution. This involves the restoration both of physical means of transport and of the mechanism of trade - firstly inside each country, secondly between European countries, and, thirdly, with the outside world. In what follows, an attempt is made to sketch the present position with regard to production and distribution, and the main obstacles to further recovery.

FOOD AND AGRICULTURE.

Before the war, Continental Europe was producing enough bread grains, and most other foods except tropical products, to feed its population. During the war, average consumption was fairly well maintained, except in Greece and parts of Eastern Europe where fighting was most intense and prolonged. The shortage of food supplies, which became acute in the spring of 1946, was largely unexpected and needs explanation.

The disturbance to agricultural production during the final phases of the war was greater than was generally realised at the time, and the food reserves that had accumulated outside Europe during the war proved quite insufficient to fill the gap. On the top of this, the whole of the Mediterranean area, including North Africa and Southern Europe, were affected by an exceptionally severe drought in 1945. The 1945 harvest in Belgium, France, Luxembourg, the Netherlands, Greece, Austria, Germany and Italy, was between 45 per cent. and 60 per cent. of pre-war, in Yugoslavia 35 per cent., in Hungary less than 30 per cent., and in the German territories ceded to Poland, where conditions were extremely unfavourable, production was reduced to below 20 per cent. In many parts of Eastern Europe, whole villages had been blotted out and the

land left derelict, and the requisitioning or destruction of horses and oxen left wide areas with insufficient draft power for cultivating the land.

Prospects for the harvest of 1946 hold out hope of improved production throughout Europe. Grain production is expected to be about one-third better on the average than in 1945, and the total may reach nearly 80 per cent. of pre-war.

TABLE II
INDEX NUMBER OF CROP PRODUCTION 1945
AND FORECASTS FOR 1946

(Base: 1935-38 = 100)

	<u>Bread</u> <u>Grains</u>		<u>Fodder</u> <u>Grains</u>		<u>Potatoes</u>		<u>Sugar Beet</u>
	<u>1945</u>	<u>1946</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>	<u>1946</u>	<u>1945</u>
Belgium	53	72	63	84	39	52	75
Denmark	93	92	103	107	121	141	-
France	53	73	55	64	49	57	49
Luxemburg	57	78	82	-	55	-	-
Netherlands	47	83	67	118	97	123	31
Norway	114	129	74	81	115	111	-
U.K.	135	-	193	-	183	-	110
Czechoslovakia	68	89	59	80	58	71	61
Greece	51	85	48	84	79	87	-
Yugoslavia	35	68	57	77	60	70	79
Finland	67	69	61	63	66	94	50
Bulgaria	77	75	74	80	217	237	18
Hungary	29	57	76	78	94	104	22
Roumania	67	83	52	74	131	144	124
Italy	57	76	53	76	89	84	15
Austria	49	60	29	-	47	72	10
Germany	57	63	62	-	65	81	-

(Source: E.E.C.E. and U.K. Ministry of Food).

The fall in livestock numbers, particularly pigs and poultry, has been severe in all occupied countries. In 1945 not more than half the pre-war number of pigs remained in the Netherlands, Norway, Greece, Yugoslavia, Hungary, Roumania, Poland, Austria and Germany. Even in the United Kingdom pig numbers were reduced during the war by 50 per cent. to conserve grain for human consumption.

TABLE III
INDEX NUMBERS OF LIVESTOCK 1945.

(Base: Pre-war = 100)

	<u>Horses</u>	<u>Cattle</u>	<u>Pigs</u>
Belgium	111	93	60
France	72	91	62
Luxemburg	87	101	59
Netherlands	116	84	50
Norway	111	91	41
U.K.	78	108	49
Czechoslovakia	90	88	64
Greece	64	59	49
Yugoslavia	43	46	47
Bulgaria	92	70	63
Hungary	34	37	32
Roumania	56	86	50
Italy	79	85	74
Austria	106	87	36
Poland	31	31	14
Germany	-	86	43

(Source: E.E.C.E. Statistical Bulletin, July, 1946).

In the worst devastated areas it will take many years to restore the pre-war numbers of horses and cattle.

Reduction of livestock has involved a sharp decline in animal manure, and many occupied countries had less than half their pre-war supplies of fertilisers. This led to a reduction of soil fertility and lower yields. Other factors responsible for the fall in output include loss of manpower through mobilisation and compulsory displacement of agricultural workers, shortages of seeds, pesticides, twine and veterinary supplies.

The cumulative effect of four years deterioration of agriculture, combined with the drought in Southern Europe, created a food deficit all over Europe which could be only partially made good by oversea imports. Total imports of bread grains into Continental Europe, which averaged only 4 million tons before the war, rose to about 3 times this figure in 1945-46. In addition to the grain shortage, there was a serious deficiency of meat and fats and other animal protein foods. Food consumption fell in many countries to semi-starvation levels, and in the spring and early summer of 1946 there were specially afflicted areas, both urban and rural, in which the population was living on a diet of less than 1,000 calories, or one-third of the normal requirement.

Comparative figures for food consumption by the non-farm population in a few countries are given below. Figures are lacking for some countries where conditions have been worse.

TABLE IV

FOOD CONSUMPTIONCalories per Head per Day of non-farm Population.

	<u>Pre-War</u>	<u>Third</u> <u>Quarter</u> <u>1944</u>	<u>July</u> <u>1945</u>	<u>May</u> <u>1946</u>
Belgium	2,870	1,660	2,145	1,975
Denmark	3,270	2,950	2,850	2,850
France	3,020	1,680	1,670	1,800
Netherlands	2,890	1,800	2,160	2,190
Norway	3,130	2,050	1,900	2,490
U.K.	3,000	3,000	2,900	2,850
Czechoslovakia	2,710	1,860	-	1,930
Luxemburg	2,900	2,000	2,100	2,300

(Source: E.E.C.E. Statistical Bulletin, July, 1946).

Average food consumption of the total population in
a number of European countries and also in U.S.A.

TABLE V

Average Calories per Head per Day
(Total Population).

(1935-38 = 100)

March 1946

Belgium	77
Czechoslovakia	74
Denmark	89
France	75
Greece	69
Luxemburg	83
Netherlands	80
Norway	79
U.K.	95
U.S.A.	102
Yugoslavia	84
Eire	103
Sweden	89
Austria	58
Finland	78
Germany	53
Italy	69
Roumania	90

(Source: E.E.C.E. Statistical Bulletin, July 1946).

Provisional estimates have been made of the calorie value of indigenous food supplies in 1946-47 resulting from the coming harvest. The expected improvement in some of the worst devastated countries in Eastern Europe is particularly noteworthy, but it should be emphasised that the calculations are necessarily based on uncertain forecasts.

TABLE VI

<u>Groups of Countries</u>	<u>Indigenous Food Supplies 1946-47. Calories per Head per Day.</u>
1. Denmark, Sweden and Hungary.	Above 2,800.
2. Czechoslovakia, Roumania, Bulgaria Yugoslavia.	2,500 to 2,800
3. France, Netherlands, Poland, Spain and Switzerland	1,900 to 2,200
4. Finland, Germany, Italy	1,600 to 1,900
5. Belgium, Greece, Norway, Austria	Below 1,600

FUEL AND POWER

The restoration of the pre-war level of coal production ranks highest in order of priority of Europe's needs. More coal is urgently needed for rail, river and sea transport, for the revival of industry, for household consumption and for the manufacture of chemicals.

Since the end of the war, great efforts have been made to restore production, but supplies, even with the addition of imports from the United States, have remained far below essential needs. The combined production of the United Kingdom, France, Belgium, Netherlands, Poland, Czechoslovakia and Germany, was 57 per cent. of pre-war in July 1945 and 74 per cent. in April 1946. Leaving out of account the United Kingdom, where the index stood at about the same level in the two months, European production (excluding Spain and Portugal) increased from 42 per cent. in July 1945 to 67 per cent. in April 1946 - an increase of more than 50% in nine months. In the British and French zones of Germany production more than doubled in this period, but the hard coal output of the Ruhr and Saar mines in April was only about 35 per cent. of pre-war.

Among the chief obstacles to increased production, the first is shortage of skilled miners. Thousands of miners were taken from occupied countries to work in Germany, and practically no recruits for the mines were trained in any belligerent country. Secondly, output per manshift has fallen

everywhere, partly through insufficient food and the need for taking time off to search for food. Thirdly, there are heavy arrears of maintenance and a lack of machinery and equipment to make good war losses. Lastly, there are several bottlenecks limiting the transport of coal by rail, road and inland waterway.

In Belgium, France and the Netherlands production in August 1946 was expected by UNCC to reach the following percentage of pre-war production : France 94, Belgium 78, Netherlands 56. Further increase depends upon improvement in food supplies, recruitment of labour, and mining and transport equipment. The chief limiting factor in the long run is likely to be the supply of trained workers. In Czechoslovakia coal production in June 1946 was about 80% of the 1938 monthly average.

In Poland coal production within the new frontiers was 32 per cent. above the production of pre-war Poland. To increase, and even to maintain, output improved food rations, quantities of mining equipment, and better transport facilities are required. The potential capacity of the present Poland is 80% above pre-war.

In Germany, output is handicapped by shortage of food, insufficient labour, and the effect of coal shortage on the manufacture and maintenance of mining and transport equipment and on the supply of consumer goods. It is unlikely that the present export surplus can be increased or even maintained unless special measures are taken to remove these handicaps. The United States has sent increasing quantities of coal to Europe during the last twelve months, but from July 1946 onwards exports are not likely to average more than 1.9 million tons per month. This figure is nearly twice the average exports of coal in 1939.

The reduction in the United Kingdom output, caused by the war, has resulted in a reduction of exports to less than 15 per cent. of the pre-war level. Exports to fourteen European countries are expected to average only about 50,000 tons monthly for some time to come.

An important Conference was held in Paris in May, 1946, to discuss the coal shortage, at which nineteen nations and six international organisations were represented. The shortage during the ensuing twelve months was estimated at between 17 million tons and 42 million tons, representing a deficiency of between 25% and 45% of requirements. The Conference concluded that the shortage of coal in Europe was such as seriously to retard economic recovery, and that widespread unemployment would be caused unless further remedial action was taken by Governments, both individually and in co-operation. The remedial measures recommended were:

- (1) to ensure adequate food for the miners, particularly underground workers;
- (2) to provide special incentives to recruit labour;
- (3) to give special priority to the manufacture and distribution of mining equipment and supplies, and
- (4) to improve facilities for the transport of coal.

Pre-war production of nine E.C.O. countries in Europe (Belgium, France, North Africa, Netherlands, Italy, Portugal, Greece, Switzerland, Sweden) averaged $7\frac{1}{2}$ million tons, compared with an August output of 6.375 million tons. Monthly imports of these countries before the war were 6.7 million tons; supplies now available to them from Germany, U.S.A., U.K., Poland and South Africa are only 3.66 million tons (55 per cent.).

TRANSPORT.

During the war, railways, ports and bridges were among the main targets of destruction. On the day of victory, the intricate network of communications, on which the whole economy of Europe depends, was virtually paralysed. It must inevitably take many years to restore European transport to its pre-war level. In France, 4,000 km. of track and more than half the marshalling and trans-shipment yards were destroyed. In Yugoslavia and Greece, two-thirds of the railway system were put out of use. In Czechoslovakia, 25 per cent. of the tunnels were blocked; in Poland 70% of the bridges were destroyed and about one-third of the stations, workshops and other installations.

In Belgium and France only about 40 per cent. of the steam locomotives were left in a serviceable condition. In Greece, stocks of locomotives barely exceeded 10 per cent. of pre-war. In the Netherlands 50 per cent. of locomotives disappeared, and of those remaining half were unserviceable.

In Belgium only 60 per cent. of the pre-war freight cars were left, and of these, one-quarter needed repair. In France the stock of freight cars left was 56 per cent. of pre-war, and of these one-third were out of use. In the Netherlands, only 50 per cent. of freight cars were left (15,000 out of 30,000), and of these 12,300 were foreign wagons.

Rolling stock which had escaped destruction was scattered throughout Europe, and one of the first tasks which the European Central Inland Transport Organisation set itself was to sort out wagons and get them returned to the countries to which they belonged.

For some time after the end of hostilities, there was virtually no inter-European traffic with the exception of military convoys. The collapse of transport immediately affected the production and distribution of coal.

On most of the inland waterways traffic was at a standstill. Air raids and sabotage had been only too successfully directed against canals, dykes and bridges. At the moment of liberation, only 509 km. out of 9,624 km. of the French inland waterways were open to navigation. Thirty-five per cent. of the Rhine fleet was lost.

During the Allied advance into east and west Germany road blocks and destruction of vital bridges rendered road transport everywhere difficult, and in many places impossible. Vast amounts of road vehicles were requisitioned and destroyed, and throughout Europe there was an acute shortage of petrol, oil and tyres. Long-distance transport of civilian goods and passengers was practically suspended. This had grave repercussions on the transport of agricultural produce and food distribution.

In spite of the greatest difficulties, rail transport is gradually emerging from the state of chaos left by the war. Current repairs were greatly hampered by shortage of spare parts and equipment. During the first few months after liberation, the Allied armies were in a position to give considerable assistance, and since it was constituted in May, 1945, the European Central Inland Transport Organisation has accomplished a most useful work of co-ordination and co-operation. By April, 1946, the number of locomotives in service had increased substantially in France and the Netherlands, and much progress had been made in the repair of wagons, permanent way and equipment. In Yugoslavia, where two-thirds of the railroads were damaged or destroyed during the war, more than 75 per cent. of the permanent way is now open to single track working, though the rolling stock available is not much more than 20 per cent. of the pre-war numbers. In Czechoslovakia, the number of freight cars in good condition is now about 40 per cent. of pre-war, and in Poland about one-third of the locomotives and passenger cars and one-half of the freight cars available in 1939 are in running order.

As regards road transport, some improvement has resulted from the acquisition of surplus Army trucks, and in some of the countries assisted by UNRRA the number of trucks compares favourably with the pre-war level. Emergency repairs to European ports have overcome what was at one time a serious bottleneck to the import of overseas supplies.

The position with regard to inland waterways is by no means uniform. Considerable progress has been made in restoring the national systems of inland waterways; but transport on the principal international rivers [the Rhine, the Elbe and the Oder] for a variety of reasons, partly political rather than technical, still lags far behind the level which should have been reached twelve months after the conclusion of hostilities. In this respect, conditions vary from the Rhine, where transport has made a good recovery towards the pre-war level, to the Danube, where international traffic is practically at a standstill.

In general, it may be said that improvement of transport has about kept pace with improvement in production, and was indeed its essential condition; but to complete the restoration of transport facilities by road, rail and inland waterway to the pre-war level will take many years and will require a very large amount of investment, which will impose a heavy burden on the countries that have suffered most and are least able to bear it.

CLOTHING AND FOOTWEAR.

In most countries of Europe shortage of clothing and footwear, especially during the winter of 1945-46, caused severe hardship. The war cut off the imports of wool, cotton, hides and tanning material which Europe normally obtained from the Western and Southern hemispheres. In South Eastern Europe particularly in Greece and in parts of Poland and Yugoslavia, lack of clothing and shelter was at one time almost as great a menace to human life as the food shortage.

The UNRRA programme for completion by the end of 1946 includes nearly \$450 million worth of clothing, footwear and textile products and raw materials. Shipments of raw cotton will be 250,000 tons and of raw wool 113,000 tons. Between 60 and 70 per cent. of these quantities had been shipped by the end of June. Raw wool and cotton account for 70 per cent. of the total clothing and textiles programme. Owing to the world shortage of footwear, leather and hides, it has only been possible to supply these at the rate of about 10,000 tons a quarter.

Some indices of textile production for recent months are given below:

TABLE VII.

(Base: 1939 = 100)

	<u>1946</u>	
Belgium	April	89
France	Feb.	70
Sweden	May	99
Bulgaria	April	87
Poland	April	50 (cotton) 33 (wool)
Yugoslavia	Feb.	30 - 40

In all countries the chief handicaps to restoration of the pre-war level of production are shortage of trained labour, need of spare parts and replacements of machinery, and in many countries lack of raw materials, particularly yarn, hides and leather. The textile industries have suffered in all countries from withdrawal of labour and lack of recruitment during the war. There is a general shortage of textile machinery which will take several years to remedy; and the reduction in livestock numbers throughout the world, particularly in the devastated countries of Europe, will perpetuate the shortage of hides and leather. In the short-term, there is difficulty in financing the import of cotton, wool, hides and tanning material into countries which have insufficient foreign exchange resources and are unable to find markets where they can earn dollars and sterling. Lastly, there is the over-all limiting factor of coal and power.

IRON AND STEEL

Indices of pig iron and steel production show marked improvement since liberation, but production still falls short of the first target of reaching the pre-war level. Actually, if full employment is to be realised and substantial recovery is to be made over the whole field of reconstruction and renewals, a higher aim than pre-war level is required, particularly as German production will be about a quarter of pre-war.

19

TABLE VIII

INDEX NUMBERS OF PIG IRON PRODUCTION

(Base: 1939 = 100)

	<u>January</u> <u>1945</u>	<u>January</u> <u>1946</u>	<u>May</u> <u>1946</u>
Belgium	9	55	68
France	5	31	40
Luxemburg	7	50	72
Poland	-	70	85 (March
Czechoslovakia (1938)	-	54	74
United Kingdom	83	94	98
U.S.A.	168	90	78
Sweden	144	115	116

TABLE IX

INDEX NUMBERS OF STEEL PRODUCTION

(Base: 1939 = 100)

	<u>January</u> <u>1945</u>	<u>January</u> <u>1946</u>	<u>May</u> <u>1946</u>
Belgium	4	59	69
France	8	35	52
Luxemburg	3	48	71
Poland	-	77	87 (March)
Czechoslovakia (base 1938)	-	65	94
United Kingdom	85	90	103
U.S.A.	164	88	128 (June)
Sweden	102	108 .	113

(Source ECE Statistical Bulletin and League of Nations Monthly Bulletin).

German pig iron production before the war was larger than that of France and the United Kingdom combined. In March, 1946, the production of the British and American zones of Germany was 148,000 tons compared with a pre-war production for the whole country of 1.3 million tons. Under the Allied Level of Industry Plan Germany will probably export only a very small fraction of her 1936 exports. This will be a factor of outstanding importance for the European and steel position.

France was before the war an exporter of iron ore. In February 1946 extraction was not more than 75 per cent. of pre-war, the slow rate of recovery being due to a combination of shortage of labour and fuel and the loss of the German market for Lorraine iron ore. The steel industry, which has shown a marked increase during the last twelve months, is everywhere handicapped by shortage of skilled workers, pig iron and fuel, as well as by the need for further replacement of plant and machinery damaged or destroyed during the war.

FINANCE AND CURRENCY

In presenting any picture of post-war Europe, some reference must be made to the question of finance and currency. In formerly occupied countries one of the major tasks has been to deal with the inflationary consequences of war-time robbery and devastation. The financial situation has been handled with varying degrees of firmness in different countries, as is shown by indices of prices and figures of notes in circulation. At one extreme there has been runaway inflation in Greece and Hungary; at the other, comparative stability as in the United Kingdom, Denmark and Norway.

TABLE X

INDICES OF NOTES IN CIRCULATION AND WHOLESALE PRICES

<u>Note Circulation</u> (base: Dec. 1939 = 100)		<u>Wholesale Prices</u> (Base: Jan. to June 1939 = 100)	
	<u>June 1946</u>	<u>Average 1945</u>	<u>June 1946</u>
United Kingdom	246	174	179
Denmark	253	194	187
Norway	289	182	173
Netherlands	227	185	246 (Aprl.)
Czechoslovakia	573	165	277 "
France	416	353	561
Finland	437	386	605 (May)
Bulgaria	849 (Aprl.)	550	601 (Aprl.)

In Yugoslavia there are no published figures for note circulation, but the index is probably between 150 and 200, and wholesale prices between three and four times pre-war level. In Poland Notes in circulation are unofficially estimated at fifteen to twenty times pre-war level; official prices in the public sector of the economy are about ten or twelve times pre-war, and free market prices about 120 times pre-war. In Italy the note circulation is nearly sixteen times pre-war; an index which combines official and free market prices stands at about 2,300, and free and black market prices 4,600. In Roumania and Greece notes in circulation are about 35 and 45 times pre-war respectively.

In Greece the runaway inflation which started during the war and continued for the first month after liberation was ended by the conversion of 50,000 million old drachmas for one new drachma. Runaway inflation in Hungary has been even worse. In the middle of July 1946, the note circulation reached the fantastic level of 75 followed by 24 noughts, and a new currency, "forint", was introduced on 1st August, 1946.

In many liberated countries the inflationary situation inherited from the German occupation was successfully attacked by withdrawal and conversion of the currency, and by cancelling or blocking part of the excess above a prescribed level. This was first done in October 1944 in Belgium, and early in 1945 in Denmark, Norway, the Netherlands, Czechoslovakia, Finland, Poland and Yugoslavia. The first effect of these measures was to bring about a contraction of purchasing power and some fall of prices in the free or black market; but later the impossibility of balancing Government expenditure by taxation, and pressure for increased wages in face of the physical scarcity of goods, led to a renewed inflationary tendency of varying degree in different countries. In Poland, free market prices and the cost of living index fell for six months between April and September, 1945, and has since risen to about the level ruling a year ago. In Czechoslovakia, wholesale prices and the cost of living remained steady during most of 1945, rose sharply in December and January, and have remained steady since then. In France, where no capital levy has taken place, the volume of purchasing power, the indices of prices and the cost of living have risen by about 50 per cent during the last twelve months.

In countries where prices have remained relatively stable during the last twelve months, the increase in the volume of currency compared with 1939 has generally been greater than the rise in prices. The converse is true in countries where prices are rising. The difference is largely explained by the degree of public confidence in the future value of the currency, and the success with which direct price control and rationing are enforced. This, in its turn, depends in part on the degree of scarcity of consumer goods, and the willingness of domestic food producers to market their surpluses through official channels.

Instability of prices and uncertainty about their probable future level have made it impossible in many countries to establish foreign exchange rates which accurately reflect the relative purchasing power of different European currencies. In most countries there are black market quotations which tend to under-value local currencies, while official rates frequently show a tendency towards over-valuation. Among the principal European currencies, those of Denmark, Norway, the Netherlands, Spain, Portugal and Switzerland preserve roughly their pre-war relation to the dollar; sterling has been depreciated 14 per cent and the value of the Swedish krona has recently been raised by 16.7 per cent. Moderate depreciations in relation to sterling have been established for Belgium, the Netherlands and Czechoslovak currencies, and the currencies of France, Italy and Finland have fallen to less than half their pre-war sterling values. In other countries of Eastern Europe (except in Czechoslovakia) no mutually agreed rates of exchange have yet been established; official rates and the black market rates have little relevance, since barter agreements are normally concluded on a basis of world prices rather than internal prices.

During 1945 there was an increase of imports into most liberated countries compared with 1944, but there was little or no improvement in exports, which remained far below the 1939, level.

The excess of imports over exports was financed partly by reduction of foreign assets (particularly in the case of France, Belgium, Norway and the Netherlands), partly by foreign loans and credits (far the greater proportion of them from the U.S.A.), and partly out of U.N.R.R.A. funds and military relief in the case of those countries receiving free assistance, the former being subscribed primarily from the U.S.A., the United Kingdom and British Dominions.

TRADE

It is difficult to estimate the total volume of international trade in Continental Europe for purposes of comparison with pre-war, but a considered and recent attempt has placed it (in mid-1946) as not greater than - if as great as - a third of what it was in 1938. Moreover, the Continent as a whole has at present a heavy debit balance with the outside world. This last factor, of course, (omitting from consideration for the moment its actual size) is not as such an abnormal feature of Europe's trade relations with the rest of the world, but the disturbing aspect of the present situation is that the normal method of financing Europe's import surplus - i.e., by the invisible items in her international account, which were principally the yield of European investments in other continents and the income received for services performed has been very considerably dislocated by the recent war. Europe is therefore largely thrown back on to her own efforts for purposes of reconstruction, and for the revival of international trade, plus what aid she can get from the rest of the world in the way of relief, rehabilitation and credits.

In 1938, Continental Europe (excluding the U.S.S.R.), while representing 29% of world industry, accounted for as much as 38% of world trade; of this volume of trade, rather more than half represented intra-European trade, the remainder representing trade with the rest of the world. It is difficult to estimate the position to-day, but it is a reasonable assumption that the proportion of intra-European trade has expanded considerably at the expense of trade with the rest of the world, on fortiori grounds. A major current problem of European trade, viewed as a whole, is therefore the resumption and development of trade with the rest of the world so that necessary imports may, so far as possible, be financed by exports.

Continental Europe has always been dependent on imports from the outside world for certain essential raw materials (e.g. cotton and wool). The decline in agricultural production, and the diversion, especially in Eastern Europe, of the flow of supplies of food and feeding stuffs from the normal channels, have created for certain countries a demand which would not normally exist for imports of food and feeding stuffs from outside Europe. At the same time, the need for capital plant for immediate reconstruction and longer term rehabilitation, coinciding with the virtual cessation of production in Germany and reduced levels of production elsewhere in Europe, results in an exceptionally large demand for imports of capital goods from the outside world. These needs have been covered in part by credit assistance already granted, but a large gap still remains.

The occupation of Continental Europe by the enemy involved the cessation of trade of the occupied countries with the rest of the world and an inevitable distortion of the normal pre-war pattern of trade. Following liberation, these countries had to set about rebuilding their trade with one another and with the rest of the world virtually from scratch. Apart from the neutral countries less directly affected by the war, all the countries had at first very limited production for export and heavy and urgent demands for imports. Each had therefore to exercise tight control of exchange movements and of the import and export of goods. Since the exchange earned by exports to other European countries was generally not convertible into other currencies and since the need for imported goods was pressing, each European country, as production gradually revived, naturally sought to use its limited ability to supply essential goods in demand by other European countries as a lever for securing in return supplies of the goods it most needed. Though there are a few welcome signs of a movement towards more liberal policies by the countries whose recovery has progressed furthest, the general position to-day is that inter-European trade is mainly conducted under bilateral agreements providing for the exchange of specified goods to specified values. In the negotiation of such bilateral agreements, each side naturally tries to get the maximum imports of the essential goods it most needs, but frequently countries appear to have found it necessary to agree to some imports of less essential goods as a condition of finding export outlets for their own production of less essential goods. The general aim of these bilateral agreements is that they should balance over a limited period, but the few countries of Continental Europe in a position to do so have sought to assist the reconstruction of their neighbours by providing under such agreements credits which have enabled the more needy countries to obtain urgently needed supplies of foodstuffs, raw materials, capital plant and consumer goods for which they could not immediately pay in goods.

Every country carries on some trade with every other country although in some cases this trade is obviously very small. This pattern is followed closely in North-Western Europe and the United Kingdom, for example, has some trade with every other country in Europe. The main exceptions to this general pattern are:-

(a) The Peninsula. Spain is not trading with Austria, France, the U.S.S.R. and other countries in Eastern Europe such as Finland, Poland, Hungary, Roumania, Bulgaria and Yugoslavia.

(b) Austria, Italy and Greece. These three countries have all had difficulty in re-establishing their foreign trade. Austria is now beginning to resume trade with neighbouring countries such as Italy, Switzerland, Hungary and Czechoslovakia and the occupying powers. Italy is again trading principally with the United Kingdom, Sweden, Switzerland, Spain, Austria, France and Denmark. Greece has been slower in resuming her trade contacts.

(c) The U.S.S.R. and certain countries in Eastern Europe
The U.S.S.R. trades mainly with the other countries in Eastern Europe. Her Western trade is limited to small amounts with Sweden, Switzerland, Norway and the United Kingdom and there have been no exchanges under the Franco-Soviet Agreement (see Table I) apart from the recent export of Soviet grain to France. An agreement, however, is being negotiated with Sweden and another has just been signed with Denmark (see Table I), so trade with the West may increase in the future. The trade of Finland, Czechoslovakia and Poland, however, is more wide-spread although Polish trade up to the present has been hindered by transport difficulties.

The trade of Hungary, Roumania, Bulgaria and Yugoslavia is up to the present mainly with the U.S.S.R. and other countries in Eastern Europe. It is difficult to estimate the direction of their trade as detailed statistics have not been released but it is clear that trade with Western Europe is so far limited. There has been a little trade between all these countries and the United Kingdom. Hungary has resumed trade with Switzerland and Sweden and there have been reports of trade between Yugoslavia and Switzerland, the Netherlands and Sweden which have not been confirmed by official sources. There has been a little trade between Bulgaria and Sweden, Switzerland and Belgium. Hungary and Roumania have both signed agreements recently with France and Switzerland, Hungary has signed agreements with Denmark, Yugoslavia an agreement with France, and Bulgaria is negotiating an exchange of goods with France so, as in the case of the U.S.S.R., an increase in trade between this area and Western Europe may be expected in the future.

The conditions of trade prevailing in Eastern Europe, reflect to some extent the changed political situation. Poland, before the war, did little trade with the U.S.S.R., mainly for political reasons, and its connections were more and more with Western Europe and overseas. It now seems that the very considerable opportunities for Polish-Soviet trade are to be fully exploited - it may be that the U.S.S.R. will absorb much of the coal of Upper Silesia, little of which is likely to go to its former German markets. The same is true of Soviet trade with South-Eastern Europe, which previously found its chief markets and sources of supply in Germany. The Soviet agreements on economic collaboration with Hungary and Roumania which provide, inter alia, for fifty per cent. The effect of Soviet participation in many branches of economic life in these countries has yet to be seen.

Sweden
Norway
Denmark
Finland
France
Belgium
Netherlands
Italy
Portugal
Spain
Switzerland
Austria
Czechoslovakia
Poland
Hungary
Roumania
Bulgaria
Yugoslavia
Greece
Turkey
U.S.S.R.

TABLE I
BILATERAL AGREEMENTS IN EUROPE

	U. S. S. R.	Turkey	Greece	Yugoslavia	Bulgaria	Roumania	Hungary	Poland	Czechoslovakia	Austria	Switzerland	Spain	Portugal	Italy	Netherlands	Belgium	France	Finland	Denmark	Norway	Sweden
Sweden		X					X	X	X		X	X		X	X	X	X	X	X		
Norway								X	X		X		X		X	X	X	X	X	X	X
Denmark	X						X	X	X		X	X		X	X	X	X	X	X	X	X
Finland	X	X						X	X		X				X	X	X	X	X	X	X
France	X		X	X		X	X		X		X	X	X	X	X	X	X	X	X	X	X
Belgium									X		X	X	X	X	X	X	X	X	X	X	X
Netherlands											X	X	X		X	X	X	X	X	X	X
Italy												X		X		X	X		X		
Portugal												X	X							X	
Spain										X		X		X	X	X			X		
Switzerland							X	X				X		X	X	X		X	X		
Austria									X	X				X	X	X			X		
Czechoslovakia	X	X		X	X	X	X			X	X					X		X	X	X	X
Poland	X			X		X	X				X	X					X	X	X		
Hungary	X							X	X												
Roumania	X			X	X		X	X	X		X						X				
Bulgaria	X					X		X	X												
Yugoslavia	X							X	X								X				
Greece		X															X				
Turkey			X					X			X								X		
U.S.S.R.				X	X	X	X	X	X								X				X

PART III - CONCLUSIONS AND RECOMMENDATIONS

1. FOOD, COAL AND TRANSPORT

[This part is to follow, and will be submitted
later]

2. REVIVAL OF MULTILATERAL TRADE

We cannot exaggerate the importance of reviving multilateral trade both among European countries and between Europe and the rest of the world if full European prosperity is to be attained.

The Economic and Social Council by its resolution of the 5th March 1946 announcing its intention of calling an International Conference on trade and employment which has associated itself with the initiative taken by the U.S. Government in their proposals published on 6th December, 1945, has pronounced in favour of multilateralism as a permanent system of trade. The I.T.O. proposals referred to aim at the expansion of international trade and full employment, especially through the reduction of all barriers to trade by mutual agreement between countries concerned and more particularly seek to eliminate those forms of trade interference which take a discriminatory form.

It is recognised that in the conditions existing in the immediate post-liberation period there may have been no practical alternative to the system of bilateral agreements of a "compensation" type by which the continental European countries have sought to rebuild their trade with one another; and it is possible that for a transitional period a number of agreements of this kind may be justifiable and even desirable. Taking a longer view, however, it is clear that bilateralism can never represent more than a second best, if only because it prevents trade from being built up on the basis of competitive efficiency and the most economic international division of labour.

We recognise that the promptitude with which particular countries find themselves in a position fully to accept the principles of multilateralism will depend in large measure on the speed with which they restore their financial stability and recover their productive capacity and their ability to export. The period of delay or transition will in its turn be vitally affected by the extent to which outside credit assistance can be made available while home production unavoidably lags - a point to which we return under Recommendation below.

What is of importance is that any measures taken during the transitional period involving restrictive and especially discriminatory practices should be clearly recognised as purely temporary expedients, and should be based on purely commercial considerations. There can be no question, in our view, that if permanently persisted in, such arrangements would prove a serious obstacle to the maximisation of trade within those areas and of European trade as a whole. The inherent dangers of restrictive agreements are well exemplified by the series of clearing agreements concluded by Nazi Germany with her neighbours in South Eastern Europe.

The rate of economic recovery and the development of European trade on a multilateral basis will also depend on the rehabilitation of public finance in each country, through the adoption of adequate measures for the collection of taxes and control of State expenditure, the stabilisation of prices and the establishment of rates of exchange which more nearly

equate internal and external price levels. Many devastated countries have already taken drastic measures to restore confidence in their respective currencies. When the necessary degree of stability has been reached, it will be possible for each country to become a member of the International Monetary Fund and for its currency to enjoy the advantages of free convertibility with other stable currencies.

In the framework of world trade contemplated by the sponsors of the International Trade Organisation, room has been specifically envisaged for various kinds of national economy. Whether those economies are based on free competition, on planning, or on a combination of the two principles, the degree to which particular nations will decide to plan ahead their foreign trade for a period of years will rest entirely with themselves. What is insisted on is that in making their plans they should steer away from policies and practices of an exclusive and discriminatory character and work constantly for the achievement of an international trading system based on the fair and equitable treatment by all countries of each others' commerce.

3. SHORT TERM PROBLEMS

The recovery of Europe depends in the last resort upon an increase in production to pre-war levels and beyond. No such increase in production can be achieved unless supplies of foodstuffs, raw materials and rehabilitation equipment can be acquired in quantities adequate to increase the productivity of labour and the rebuilding of shattered industries. Some of the current shortages can be assisted by the better distribution of goods within Europe itself and it is recommended that European Governments in collaboration with existing regional bodies notably E.E.C.E. and E.C.O., should take all possible steps to that end. It must, however, be recognised that before the War Europe, whether including or excluding the United Kingdom, was already on balance a heavy importer of goods. The gap was bridged by interest on overseas investments and to a limited extent by fresh commercial borrowing. Her whole economy rested on the import level of foodstuffs and raw materials so obtained. Decline in European production due to the war and the disappearance of many other assets available to European countries for earning foreign exchange has increased the adverse trade balance both by reducing the volume of exports and by increasing the need for imports.

While an exact quantitative appraisal of the balance of payments for 1947 must be the subject of meticulous expert studies for which time has not been available, it is, nevertheless, clear to us from the information which has been assembled that the economy of Europe as a whole cannot be placed upon a satisfactory footing in 1947 without outside assistance to finance essential imports. We accordingly endorse the recommendation made by the U.N.R.R.A. Council at its recent session that the General Assembly of the United Nations should "forthwith establish or designate such agency or agencies as it may deem appropriate whose functions shall include:

- (a) A review of the needs in 1947 for financing urgent imports of the basic essentials of life, particularly food and supplies for agricultural production, after the termination of U.N.R.R.A. programmes to the extent that they cannot otherwise be met and
- (b) The making of recommendations as to the financial assistance that might be required to meet such needs as are found to exist as a result of foreign exchange difficulties which cannot be dealt with by existing agencies."

We recommend further that the agency established or designated by the General Assembly of the United Nations should comprise a small body of independent experts charged with the particular task of preparing before the end of November 1946 a detailed analytical study of the prospective balance of payments position in 1947 for all countries of Europe which anticipate a serious difficulty in financing essential imports during that year.

4. POST-WAR ECONOMIC CO-OPERATION IN EUROPE

1. Apart from external assistance there is clearly need for effective machinery for mutual co-operation and assistance in the economic field between the European nations themselves in dealing with those problems of European reconstruction which require concerted action.
2. The urgent problems of the period immediately following the liberation of the enemy occupied countries which have demanded such concerted action include the allocation of European supplies of goods in critically short world supply, the restoration of transport and the distribution of power and gas supplies.
3. To provide machinery for co-operation in these spheres E.C.O., E.E.C.E. and E.C.I.T.O., were set up and these temporary European inter-Governmental organisations although restricted in membership, authority and functions and without formal relationships with world organisations, have been responsible for achieving a useful measure of concerted action in the field of the most pressing short term problems of European reconstruction.
4. At the same time it is anticipated that there will be longer term problems of European reconstruction which may lend themselves to concerted action by the countries of Europe because they are problems directly affecting European countries only or which though they may be fully solved only as part of world wide problems may nevertheless usefully be discussed in their European aspects by the European countries in concert.

5. It is accordingly recommended that:-

- (i) the Economic and Social Council should give consideration to the establishment of a co-ordinating body which might be called the Economic Council for Europe
 - (a) to facilitate concerted action with respect to the immediate problems of reconstruction such as are at present the responsibility of E.C.O., E.E.C.E. and E.C.I.T.O., and
 - (b) to provide a forum for discussion of such longer term problems as lend themselves to concerted action on a European basis.
- (ii) That E.C.O., E.E.C.E. and E.C.I.T.O. continue until such time as their activities can be effectively taken over by the Economic Council for Europe.
- (iii) That the scope and organisation of the proposed Economic Council for Europe should be worked out, and from time to time reviewed, in the light of the development of other international agencies (e.g. F.A.O., I.B.R.D., I.M.F., and I.T.O.) working in the same field, and more particularly of such regional bodies for Europe as those agencies may set up.

6. Membership of the Council would be confined to European members of the United Nations or other members whose governments derive authority in Europe from responsibilities of occupation. Non-European members of the United Nations would have the right to send observers to the Council and such subordinate bodies as it may establish, and the Council should at its discretion associate with those bodies European countries not members of the United Nations.

7. The Council and its subordinate bodies, although set up and supervised by the Economic and Social Council, would be empowered to make recommendations and to report direct to its members, observer governments or any world organisations to which it might be formally related, on any matter within their competence. The European Council, however, would keep its world parent body informed of its activities, and would refer to that body any questions relating to the world economy as a whole, and at the same time be assigned tasks within its competence and scope by the parent body.

8. As indicated in paragraph 5 (iii) it would be necessary to secure the closest integration, if not identification, of the Council's subordinate bodies with European regional offices of international agencies working in the same field, (see paragraph 5 (iii) above). In principle, this integration at the European level should reflect the close relationship established between U.N.O. and the Specialised Agencies at the world level.

9. It is suggested that the scope and functions of the Economic Council for Europe should be reviewed after three years in the light of experience gained and circumstances then prevailing.

APPENDIX 'A'

THE UNITED KINGDOM

When the war ended the United Kingdom forces had been maintaining, for nearly six years, active hostilities against the Axis powers on air, sea and land fronts which eventually stretched about three-quarters of the way round the globe and from the Arctic to well below the Equator. This widespread and long sustained effort had most substantial battle and civilian casualties and great sacrifices in new investment maintenance and consumption; it had also involved a large net transfer to others of wealth accumulated overseas during many years of peaceful commerce. Although faced with immense economic burdens and problems of its own, the United Kingdom, without waiting for the end of the war, became, through UNRRA, the second largest contributor to the immediate relief of war-devastated United Nations and others in Europe and the Far East. Immediately after the war the United Kingdom gave extensive priorities for the production of goods for export, and by retaining strict economic controls and rationing at home was able to make available to other countries a larger proportion of its total industrial output than any other nation. By so doing the United Kingdom has not only begun to restore its own balance of payments, but has substantially assisted world recovery, and the resumption of international trade.

2. The United Kingdom must, therefore, be considered in this Report from several angles - as one of the countries most heavily devastated by enemy bombardment; as one of those most burdened with sacrifices arising out of the mobilisation and deployment against the enemy of vast land, sea and air forces; as a country which made a unique war contribution in spending accumulated foreign investments to gain time for the full United Nations effort to be built up; as the second largest contributor to UNRRA relief; as a great and early post-war provider of necessary goods through the well-tried methods of trade which must increasingly be relied on as the source of world economic reconstruction and prosperity; and finally as a country carrying through a rapid and successful economic recovery and well launched on post-war policies of full employment, advanced social services and expanding consumption which should contribute towards achieving the economic and social purposes of the United Nations.

3. The cost of the war to the United Kingdom has been, in round figures, £26,000 million, or \$104 billion. This means that time, work and energy to the tune of over \$100 billion, which might have been spent in improving the standard of living of the people of the United Kingdom, was instead spent in striving for victory which was at last achieved.

To put the matter in another, and perhaps more striking way, 44,500,000 man years were put into the United Kingdom Armed Forces and the production of munitions up to the end of the war, and thus were not available to maintain and improve the British standard of living. Vast Armed Forces cannot be demobilised in the twinkling of an eye, and heavy expenditure, whether it is counted in money or in man years, has been devoted to non-productive defence expenditure at home and overseas since the end of the war. Much of this expenditure, such as the heavy cost of occupying large parts of Germany, represents a further British contribution towards meeting the burdens of maintaining world security.

At the peak of the war, ten million people out of a working population of twenty-two million, were engaged in fighting and in munitions production. Out of sixteen million women, seven million were in the Services, whole-time civil defence or industry.

4. The British war effort altered the whole pattern of national life. The quantity of both wheat and potatoes harvested in 1943 was more than double the pre-war average. Magnesium production increased to more than eleven times the pre-war rate, while the production of many articles, such as motor-cars and refrigerators was completely suspended.

5. No arithmetic of human suffering can establish exactly the relative war losses as between the Allies. But after many weeks of deliberation, agreement was reached that the United Kingdom is entitled to claim 30% of the German reparation available to the eighteen countries represented at the Paris Reparations Conference. Four million houses throughout the towns and countryside of the United Kingdom were destroyed or damaged; which represents nearly three out of every ten of the houses which existed in 1939. Perhaps a simple figure like this brings home the extent of the damage suffered even more clearly than the estimate that the total cost of physical damage to property amounted to \$1,300 million on pre-war values, and that the extent to which property has deteriorated owing to failure to preserve a normal standard of maintenance amounts to not less than a further \$1,000 million. Houses which have been destroyed or damaged can be re-built or repaired, although this will take a long while. But lives which have been lost are irreplaceable. United Kingdom fatal casualties amounted to 386,000 and the number of wounded or seriously injured to 383,000.

6. The foundations of the U.K.'s normal economic life are a high degree of industrial specialisation, a substantial dependence upon imported foodstuffs and raw materials, and the maintenance of a volume of export trade and of other sources of foreign exchange earnings adequate to pay for those imports. Before the war, the U.K. was dependent on imports for two-thirds of the food consumed by its people, and apart from coal, for the bulk of the raw materials used by its industries. But the U.K. paid for such requirements by the proceeds of its exports and by the earnings of its shipping and other services rendered to overseas countries and of its investments abroad.

7. The effect of the war was to bring about a severe dislocation of the U.K. position in several respects, which will inevitably take some years to remedy; namely, loss of exports, loss of overseas investments; loss of shipping, increase of overseas debt, and loss of reserves; hence the necessity for financial assistance to put the U.K. on its feet, in the form of loans from the U.S.A. and Canada to a limit of £3,750 million and £1,250 million respectively.

8. Loss of Exports. The loss of U.K. export trade during the war was to a large extent the consequence of a deliberate act of policy. An attempt to maintain U.K. export trade at a high level would have stood in the way of the full degree mobilisation of man-power, production, and materials for the direct war effort which the situation of the U.K. required as being the base of operations nearest to Germany. But food, munitions, and raw materials still had to be imported. The operation of Lend Lease from the U.S., Mutual Aid and other contributions from Canada, and sterling credits from other countries, made this compatible with the deliberate abandonment of the export trade. The decision, that the U.K. should in effect disregard the maintenance of export trade in favour of the maximum concentration of resources on the armed forces and war industry, undoubtedly constituted a rational and proper allocation of effort between the Allies which was willingly accepted by the U.K. in the interests of winning the war. But the outcome has been that British export trade shrank to less than one-third of its pre-war volume, and despite some recovery, may be expected to cover in 1946 not more than one-half of the essential expenditure of the country on the purchase of a minimum volume of imports and on other necessary payments overseas. Thus, with the end of the war and the termination of Lend Lease and Mutual Aid a period of acute difficulty must be faced until the reconversion of industry, the release of man-power and the recovery and expansion of export markets have begun to result in a substantial flow of exports.

9. Loss of shipping. More than half of the pre-war tonnage of British merchant shipping was lost during the war. Allowing for new building in the war, U.K.-owned tonnage is now less than three-quarters of the pre-war figures. Until the fleet has been expanded and carrying trades abandoned in the war have been recovered, the net income available from shipping services to supplement U.K. purchasing power abroad will be greatly below pre-war level.

10. Loss of Overseas Investments. Finally, there is one form of loss which has been suffered by the United Kingdom, and by the United Kingdom alone among the Allies. Since September, 1939, the position of the United Kingdom on international capital account has deteriorated by some £5,000 million, or £20 billion. This represents over £100 or \$400 per head. It is estimated that the net income from overseas investments in 1945 will be less than half that received in 1938. This reflects the extensive liquidation of foreign securities, the reparation of loans by overseas debtors, and the increased interest payments to holders of sterling debts caused by the heavy war expenditure which the U.K. has had to incur overseas. Thus,

nearly all the marketable U.S. dollar securities of U.K. nationals were compulsorily acquired for sale or pledging in order to finance the purchase of munitions and the construction of war plants in the U.S. before the operation of the Lend Lease Act.

11. The Increase of Overseas Debt. - The interval of time which must inevitably elapse, before the export trade can be recovered and the loss of income from investments and shipping can be made good, would have brought about a position of serious difficulty for the U.K., even if overseas expenditure had remained at pre-war levels. But the exigencies of the war involved the U.K. in enormous cash expenditure overseas. Large military forces had to be maintained in the Middle East to engage the Germans there; even larger forces operated against the Japanese in Burma and the Far East. Supplies on an immense scale had to be acquired in addition to those furnished under Lend Lease and Mutual Aid to sustain these forces. All this involved a great outpouring of expenditure in local currencies, particularly in India, Egypt and Palestine, whether on troop pay, the building of aerodromes, railways or roads, or the payment of local labour, or on the acquisition of supplies. Such expenditure could be covered only to a limited extent by exports or by the liquidation of investments; the result has been that the U.K. has incurred huge debts in the form of accumulated sterling balances.

12. The United Kingdom's reconversion. Despite the various continuing occupation commitments of the United Kingdom forces and the difficulties of transport home from distant theatres, a rapid reconversion to peace has been carried through. Between mid-1945 and mid-1946, the net transfer of man-power out of the armed forces and their supply was no less than 6 millions. In the same period workers for the home market were restored to about the June, 1939, level (involving an increase of nearly 2 millions) and workers for export were raised to one-third above 1939, involving an increase of 800,000. Building and civil engineering labour was also increased by over 50 per cent. While coal remained very short the war-time decline in production was arrested. Electricity generated in 1946 is running at approximately twice the level of ten years earlier, and steel output is considerably above the 1938 average. Merchant ships under construction in the U.K. in 1946 total approximately twice the tonnage recorded at the end of 1938. Production of civilian passenger motor-cars increased from less than 200 monthly in the first half of 1945 to over 20,000 in June, 1946, and the United Kingdom is already exporting more than twice as many monthly as in 1935. Exports of commercial motor vehicles, actually exceed four times the pre-war rate, while more are also being manufactured for home use. Agricultural tractors are one among several types of agricultural machinery vital for food production which are being manufactured at well above pre-war levels. Exports as a whole have attained a rate exceeding 1938 levels in volume, and more than double in value. Production of building bricks has been more than tripled between June, 1945 and June, 1946, and at the end of June over 100,000 permanent houses and 26,000 temporary houses were under construction. There is, however, an immense still unsatisfied demand for new accommodation and also for a wide range of goods and services for the home market. While the main problems of transferring man-power, clearing or re-tooling factories and getting production started have been successfully accomplished, the main benefits of the reconversion effort still lie ahead.

The place of the United Kingdom in European Trade

13. In 1938 the U.K. imported from the countries of Europe (excluding Germany, Russia, Latvia, Estonia and Lithuania) goods worth \$247 million representing 26.8 per cent of her total imports. To the same countries U.K. exports in 1938 were \$139 million and re-exports \$29 million, representing 29.5 per cent and 46.9 per cent of her total exports and re-exports. These figures show the importance of the trade between the U.K. and continental Europe, though the trade of the United Kingdom with the rest of the world (including the British Empire) was of course much larger. Analysis of the trade with individual countries shows that in almost every case imports into the United Kingdom were in excess of exports and re-exports combined.

14. The imports in 1938 consisted as to 70 per cent of foodstuffs and raw materials. The manufactured goods, representing the remaining 30 per cent, included imports of such goods as iron and steel, specialised machinery, paper and timber manufactures. Imports in 1938 consisted mainly of manufactured goods and coal.

15. In the first six months of 1946 U.K. imports from these countries totalled \$81 million, and exports and re-exports \$145 million and \$18 million respectively. These figures represent respectively 15.6, 35.8 and 77 per cent of total U.K. imports, exports and re-exports. U.K. imports of essential foodstuffs and raw materials from continental Europe are temporarily limited by availabilities, while for balance of payments reasons it is necessary for the time being to maintain some restriction on imports from all sources of manufactured goods not regarded as essential.

16. It is to be noted that the proportion of total U.K. exports going to Europe is markedly higher than in 1938 and that the U.K. is exporting more to these countries as a group than they are sending to the U.K. Analysis by countries shows that in fact the countries with which there is an excess of U.K. exports over imports are those which were occupied by the enemy. The export figures, which include shipments to the order of U.K.R.R.A., illustrate the measure of the help being given by U.K. exports to the reconstruction of Europe.

17. Looking ahead to more normal times it seems reasonable to assume that under conditions of full employment and high industrial activity, the U.K. will import from Europe large quantities of foodstuffs and raw materials when they again become available and provided the European producers can supply at competitive world prices. It also seems likely that there will be a continuing demand for many of the manufactured goods which accounted for the balance of normal U.K. imports from Europe. At the same time the U.K. should be in a position to supply many of the types of goods formerly imported from Germany.

APPENDIX 'B'

MEMORANDUM ON THE ECONOMIC SITUATION IN GERMANY AS AFFECTING EUROPEAN RECONSTRUCTION

1. No survey of post-war European economic reconstruction would be complete without an examination of the present and future position of Germany whose structure will differ very considerably from the Germany of 1939. It is not the object of the Sub-Commission on Devastated Areas to make a study of Germany under the same terms of reference as Allies or even other ex enemies, but it is essential to take cognizance of her position under the Controlling Powers in order that other countries may make the necessary adjustments to their own economies.

2. In speaking of Germany the area under consideration in this paper is that which is subject to the authority of the Allied Control Commission, i.e. the Altreich less the territory lying to the east of the Oder-Western Neisse line.

3. It is proposed to consider this subject in two parts, the short term aspect and the long term aspect.

Part I. Short Term Aspect

4. The period under review in considering the short term aspect is up to the end of 1948.

5. Germany through her own fault is probably more devastated than any other country as a result of the war. There are two basic limiting factors in that country today which condition the life and prospects of the inhabitants and which affect Europe as a whole. They are food and coal. No less important to the German but of less direct international significance is the problem of housing. It is worth examining these matters in some detail. Germany in pre-war years was only about 90% self-sufficient in food supplies. If the eventual Peace Treaty with Germany confirms the loss of territory lying to the east of the Oder-Western Neisse line, this will deprive her of about 25% of her agricultural land producing a large surplus of cereals, potatoes and livestock products which were consumed in Western Germany. The population of the new Germany, on the other hand, would be little less than it was before the war. The upkeep of the British and American Zones is at present costing the two Governments concerned about £130 million: almost all of this represents the excess of imports over exports from the two Zones. The greater part of the imports consists of food. Even so, food imports are far from adequate owing to the world shortage of supplies. The most that can

be done is to give the normal consumer a daily ration amounting to about 1200 calories which is little more than half the quantity considered by UNRRA to be essential to maintain a healthy population. Higher ration scales are in force for certain categories of workers but these scales are still too low and the effect has been to restrict very considerably industrial effort.

6. The coal fields of Germany, and particularly those in the British Zone, are vital to the industrial recovery of Europe. Since the surrender a high proportion of the coal produced has been exported and has been a valuable contribution to a measure of economic recovery in recipient countries. The present level of production is, however, entirely inadequate and strenuous efforts to increase output have lately had little effect. The reason for this, apart from the shortage of food mentioned above, is that it has been found impossible in practice to revive one industry in comparative isolation without also rehabilitating to a certain degree those activities which are ancillary to the coal industry or those on which the industry itself depends for essential supplies. Moreover, in the absence of consumer goods there is little incentive to increase production and the problem is further aggravated by the inadequacy of housing accommodation. An improvement in these conditions is indispensable to an increased output of coal and cannot be achieved without increasing the consumption of coal in Germany. A quadripartite Committee of experts appointed at the instance of the Council of Foreign Ministers is at present considering means whereby the production of coal in Germany can be increased. Pending the submission of its findings towards the end of August coal exports are being maintained despite the facts that the present level of exports

- (a) acts as a deterrent to an increase in the production of coal; and
- (b) imposes a heavy burden on U.S. and British taxpayers.

7. It is a pre-requisite of prosperity and well-being in Europe that Germany should achieve as rapidly as possible an economy which is viable as the result of her own efforts rather than relying on financial contributions from the U.S. and British nations which are not expected to continue indefinitely. In default of Germany obtaining a balanced economy she is likely to suffer a complete breakdown with serious consequences for the rest of Europe. It is therefore the object of the Occupying Authorities to achieve a balance of payments and to balance the German budget. The problem is really one of finding a way of increasing exports to pay for minimum essential imports. Imports will primarily consist of staple food products and raw materials for fertilizers and

other essentials. There can be no import of pre-war luxury foodstuffs and ... consumer goods, and European countries which provided these for Germany before the war must look for other customers. Most of the wheat which has to be imported comes from the dollar area and it is necessary to ensure that Germany receives sufficient dollars for her exports to pay for these imports.

8. Germany is able to export very little in the way of manufactured goods at present due primarily to the shortage of coal. Her major exports must, therefore, be largely confined to raw materials of which potash, timber and coal will form the greater part. It is in the interests of Europe as a whole that German exports should be increased as rapidly as possible.

Part II. Long Term Aspect

9. On the 27th March, 1946 the Allied Control Council in Berlin agreed the plan for Reparations and the level of Post-War German Economy. The main assumptions under-lying this plan are:

- (a) that the population of post-war Germany will be 66.5 million;
- (b) that Germany will be treated as a single economic unit;
- (c) that exports from Germany will be acceptable in the international markets.
- (d) that the Western frontiers of Germany remain unchanged.

It has been frequently stated that it is the policy of His Majesty's Government that Germany should be treated as a single economic unit. This is not at present being carried out.

10. The guiding principles of the plan may be summarized as follows:

- (a) Elimination of the German war potential and the industrial disarmament of Germany.
- (b) Payment of reparations to the countries which had suffered from German aggression.
- (c) Development of agricultural and peaceful industries.
- (d) Maintenance in Germany of average living standards not exceeding the average standard of living of European countries (excluding the United Kingdom and the Union of Soviet Socialist Republics).
- (e) Retention in Germany, after payment of reparations, of sufficient resources to enable her to maintain herself without external assistance.

11. The plan divides the industries of Germany into three broad classes, those which are to be prohibited entirely on grounds of war potentials, those whose output is to be restricted, and other. The agreement reached with respect to exports and imports was as follows:-

(a) That the value of exports from Germany shall be planned as RM 3000 million (1936 value) for 1949, and that sufficient industrial capacity shall be retained to produce goods to this value and cover the internal requirements in Germany in accordance with the Potsdam Declaration.

(b) That approved imports will not exceed RM 3000 million (1936 value) as compared with RM 4,200 million in 1936.

(c) That of the total proceeds from exports, it is estimated that not more than RM 1500 million can be utilised to pay for imports of food and fodder if this will be required with the understanding that, after all imports approved by the Control Council are paid for, any portion of that sum not needed for food and fodder will be used to pay for costs of occupation and services such as transport, insurances, etc.

12. Following the approval of this plan (subject to the four basic assumptions in paragraph 9) it was agreed that the existing capacities of the separate branch of production should be determined and a list compiled of enterprises available for reparations which represents the capacity remaining in excess of that permitted under the plan.

13. There are certain clear inferences to be drawn from this plan. Firstly, there will be a substantial overall decline in the general level of German production (estimated at about 40-45% of 1938 level). Secondly, the restrictions imposed upon Germany's war potential industries will substantially reduce her importance as an exporter of steel, engineering and chemical products. Thirdly, because of the restrictions imposed on war potential industries and of Germany's need to maintain her imports at some 70% of pre-war level an expansion will be necessary in the exports of peaceful industries. The effect of these developments on the rest of Europe are bound to be considerable, though their full impact will be to some extent mitigated by the implementation of the reparation programme which involves the transfer of certain capital assets from Germany to other European countries.

14. Although under the Level of Industry Plan Germany's standards are to be reduced to the average of Europe excluding the U.S.S.R. and U.K., this provision was intended as a yardstick by which to determine the type and quantity of reparation deliveries and will only operate during the reparation period. Thereafter it is to be expected that Germany by her own efforts will be able to effect an increase in her standard of living and in the level of peaceful industrial production; this should result in an expansion of her foreign trade. Nevertheless, the limitations on steel and engineering capacity will undoubtedly act as a brake on this development and for some years to come Germany will be concerned with reducing the cost of her imports which can only be brought about by a reorientation of her agricultural and industrial economy.

15. There is no escaping the fact that these changes in the pattern of German economy will result in a dislocation in the economic life of neighbouring countries whether the plan is integrally carried out or partially modified. It must, however, be recognised that the majority of restrictions on German production which are envisaged under the Plan have to some extent already been brought about as a result of the Allied bombing during the war years or are essential on security grounds. The net effect of these measures will be so to reduce the German standard as to make it difficult to make any major adjustments in the German position with a view to alleviating the difficulties of other European countries. Any further restrictions of peacetime industries which were designed to reduce the postwar competition with similar industries in neighbouring countries would leave Germany with only less than a bare subsistence level.

16. In the Appendix to this paper are set out in considerable detail an estimate of the changes that are likely to occur in the German import and export trade in accordance with the Level of Industry Plan.

IMPORTS

1. Food

Appendix

For many years the cost of necessary imported food must dominate Germany's import account. Provision has been made for a maximum of RM.1500 million at 1936 prices to be expended in this way and if the emphasis on the development of agriculture in the next few years leads to good progress in restoring pre-war yields and beginning to build up livestock numbers, there is reason to expect that imports to this value together with indigenous production will provide an adequate diet for the German population though one considerably below pre-war standard in quality. Germany will certainly not be able to afford to pay for imports on anything like the pre-war scale of the more expensive types of food stuffs such as fruit, vegetables, dairy products and tobacco. The reduction in imports of semi-luxury foodstuffs will mean a considerable loss of markets to Holland, Italy, Denmark and the Balkan countries. It may well be that in course of time Germany will succeed in producing for herself the high-cost semi-luxury foods and might even become in a position to export these in competition with the countries mentioned above.

2. Fertilisers

As a consequence of the eventual suppression of the synthetic ammonia process and of other measures of industrial disarmament, the import requirement of phosphates and nitrogenous fertilisers will be considerably higher than in 1936, the former perhaps showing a three fold increase and the latter, when supplies are available in the world market, rising to perhaps 250 millions compared with about 11 million Reichmarks in 1936.

3. Raw Materials

Turning to imports of raw materials, since Germany in the interests of conserving foreign exchange will make a maximum use of scrap and exploit her own resources of metallic ores and also because the level of the metallurgical and engineering industries will be reduced, a reduction to about one third of the 1936 value may be looked for in the imports of non-ferrous metals, scrap and alloys and metallic ores. It is difficult at this stage to assess in any detail the effect upon the export trade of other European countries. Among

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those possibly affected are Sweden, Norway, France, Yugoslavia, Greece, Holland and Belgium. In the case of Sweden the effect may be serious though there should be some compensating advantage in that the reparations machinery made available from Germany to other countries should open the market of those countries to Swedish ore.

4. Liquid fuels and Lubricants

Owing to loss of territory, the reduced scale of industry in general and the severe reduction in production of motor vehicles, a reduction may be expected in imports of liquid fuels and lubricants. The production of synthetic oil is to be prohibited, however, and indigenous resources in North West Germany, even if fully exploited cannot meet all requirements. A rough estimate might put the long term imports at 60% of 1936. The European countries mainly affected are Roumania and indirectly Holland and the United Kingdom.

5. Chemicals.

Chemical raw materials, rosin, copal and shellac, were obtained by Germany from a variety of countries. The restrictions on the future output of the Chemical and Chemical Technical industries will result in a reduction of these imports by about half compared with pre-war.

The production of synthetic rubber in Germany is to be prohibited while on the other hand requirements will fall as a result of the decrease in production of motor vehicles and the general reduction in the level of industry. In consequence Germany's future import requirements may be expected to be rather less than half the 1936 level. This does not affect any European country except indirectly Holland and the United Kingdom.

6. Ball and Roller Bearings

The production of ball and roller bearings is eventually to be prohibited on grounds of industrial disarmament. Imports in 1936 were negligible and perhaps 35 million Reichmarks at 1936 value might be required in future to meet total German needs. Sweden and the United Kingdom are the main European countries from which these supplies might be drawn.

7. Hides and Footwear

It has been estimated that production of boots and shoes in 1949 will be at 70% of 1936 levels. This calculation is based on the lower standard of living which must prevail in post-war Germany. Production, however, may

exceed this estimate unless otherwise determined by the Control Council.

Similar remarks apply to pulp and paper and to textiles and apparel which are dealt with below. Indigencous supplies of hides and skins will also be below pre-war levels and on balance import requirements are also estimated at 70% of 1936. Germany before the war drew her supplies of sole leather mainly from Latin America and of upper leather from a number of European and other countries.

8. Timber

Her forests constitute one of the major natural assets left to Germany and she will be expected to utilize them to the maximum economic extent. In the catalogue of minimum essential imports, therefore, little more than certain special types of wood e.g. tropical woods for furniture-making are included. The result may well be to cut imports to under 10% of 1936 value. The European countries mainly affected are Scandinavia, Russia, Austria, Czecho-Slovakia, Poland and Yugo-Slavia.

9. Textiles.

Production of textiles in 1949 has been estimated at 10 kilograms per head including 2 kilograms for export; this is a reduction to 77% of 1936 by weight of fibres. Allowing for the limitation placed on the production of synthetic fibres (185,000 tons per annum) the future value of textile fibres imported may be assessed at about half the 1936 figure for fibres and yarns. European countries mainly affected are the United Kingdom, Belgium, Holland, Switzerland, Italy, Austria, Czecho-Slovakia and Turkey.

10. The foregoing list covers most of the important categories of future essential imports other than technical oils and fats which may be expected to remain at about pre-war levels and raw fur pelts which may be reduced to, say, 40%. There will, however, be a large number of other specialised items, the import of which will be found necessary to meet shortages in domestic production, for example, certain machinery, heavy forgings, wood-pulp and some miscellaneous manufactures. In the most general terms these imports may be put at about one-third of pre-war and the effect of the reduction will be widespread.

11. The overall effect on Germany's import account may be summarised as follows :-

Food and feeding stuffs up to a maximum of 1,500 millions compared

with 1,485 millions in 1936; all other imports, 1,500 millions compared with 2,733 millions in 1936. The figures for 1949 are in terms of 1936 values.

EXPORTS

12. As a result of the restriction of metallurgical engineering and heavy chemical industries on grounds of industrial disarmament, Germany's exports under these heads may be expected to suffer a drastic reduction compared with pre-war. Iron and steel products and mechanical engineering may perhaps fall to just over one-sixth of the value in 1936; electrical equipment to perhaps one-half; vehicles to about one-sixth and chemical and chemic-technical products to under one-half. Within these broad categories, moreover, there would be a change of emphasis; for example, the engineering products would mainly be light and medium rather than heavy and would not include machine tools; the vehicles will consist mainly of bicycles; and while pharmaceuticals might be at approximately pre-war levels, dyestuffs and heavy chemicals would be drastically cut. There is hardly a country in Europe which will not be effected by these changes although the incidence of reparations may in some cases compensate by the transfer of productive capacity from Germany to other countries.

13. The optical and precision instruments industry in Germany is restricted to 70% of 1936 but is nevertheless expected to contribute almost as much to the export account as pre-war.

14. The restriction of production of non-ferrous metals in Germany on grounds of industrial disarmament will cause a reduction in her exports of non-ferrous metals products to between one-quarter and one-third of the pre-war figure and it is probable that the exports will be concentrated in the higher-valued finished products.

15. To counterbalance these curtailments, Germany will have to seek an expansion in her exports of products from the relatively peaceful industries where no restrictions have been imposed - for example, wooden goods (including furniture); stones, clays and other quarry products; ceramics, glass and glassware; leather goods; books and stationery and paper goods; toys and musical instruments; textiles and apparel. In some of these cases there will be a conflict of interest between satisfying the demands of her own population for post-war reconstruction and the need to earn foreign exchange.

16. In addition to the foregoing, an increase in the exports of coal and coke of

about one-quarter of other mineral products (mainly potash) of about one-half are anticipated.

17. Exports of electric power are also expected to make some contribution of foreign exchange compared with a negligible amount pre-war. The Level of Industry Plan provides for 400,000 tons of paper for export, which would mean a reduction of about one-sixth in the value of exports under the heading of paper and cardboard compared with 1936.

18. There remains a miscellaneous group of exports which were valued in 1936 at about 250 million Reichsmarks and a similar allowance should be made for 1949 although the composition of the miscellaneous group would not necessarily be the same. In sum total, the exports of RM 3000 millions in 1949 (at 1936 values) compare with RM 4,768 millions in 1936.

19. Two tables are appended showing Germany's imports and exports in 1936 by major categories and the principal countries involved.

TABLE 1. GERMAN IMPORTS IN 1936
(Value in Million RM)

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		Total	U.K.	U.S.A.	Russia	France	China	Norway Finland Denmark	Belgium Holland	Italy Austria	Hungary Czecho. Poland	Greece Turkey	Roumania Bulgaria Yugoslavia	N.E.I. India Japan	Brazil Argentina Chile Mexico
FOOD AND FEEDING STUFFS	TOTAL	1,485	25	18	5	5	65	217	100	135	92	116	108	107	113
of wh. Cereals		67	1	-	-	-	-	2	1	10	11	-	3	5	14
Meat and products		205	3	2	-	-	6	56	11	5	41	2	29	-	14
Sugar and honey		4	-	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco		129	-	5	2	-	1	-	-	-	-	53	20	34	8
Edible fats and oils inc. oilcake		259	-	2	-	-	47	41	1	-	5	-	5	50	4
Beverage (tea, coffee, cocoa)		166	-	-	-	-	1	-	-	-	-	-	-	9	50
Wine etc. inc. hops		26	-	-	-	-	-	-	-	5	7	2	1	-	-
Other		629	21	9	3	5	10	118	87	115	23	59	50	9	23
METALLIC ORES	TOTAL	309	4	11	1	44	7	117	4	6	6	5	6	8	-
of wh. Lead and Zinc		20	2	-	-	-	-	-	-	-	-	-	3	-	-
Iron		168	-	-	-	36	-	107	2	-	-	2	-	-	-
Manganese, chrome and nickel ores		20	-	-	-	-	-	-	-	-	-	3	-	3	-
Manganese and iron-bearing cinders		17	2	-	-	6	-	-	2	1	-	-	-	-	-
Copper		10	-	-	-	-	-	2	-	-	-	-	-	2	-
Bauxite and cryolite		20	-	-	-	2	-	2	-	3	6	-	3	3	-
Pyrites		16	-	-	-	-	-	5	-	2	-	-	-	-	-
Other non-ferrous		38	-	-	1	-	7	1	-	-	-	-	-	1	-
NON-FERROUS METALS SCRAP ALLOYS	TOTAL	159	14	12	-	-	-	17	20	4	6	-	7	12	18
of wh. Copper		88	10	10	-	-	-	8	6	-	1	-	7	-	9
Aluminium		6	1	-	-	-	-	3	-	2	-	-	-	-	-
Tin		22	-	-	-	-	-	-	5	-	-	-	-	12	-
Magnesium		n.a.	-	-	-	-	-	-	-	-	-	-	-	-	-
Nickel		7	2	2	-	-	-	2	-	-	-	-	-	-	-
Lead		14	1	-	-	-	-	-	2	-	-	-	-	-	9
Zinc		14	-	-	-	-	-	4	4	-	5	-	-	-	-
Other		8	-	-	-	-	-	-	3	2	-	-	-	-	-
IRON AND STEEL															
Pig Iron and ferro-alloys		14	-	-	-	2	-	8	-	-	-	-	-	-	-
Common-grade steel		65	4	-	-	-	-	9	33	7	5	-	-	-	-
Special		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heavy forgings		-	-	-	-	-	-	-	-	-	-	-	-	-	-
LIQUID FUEL AND LUBRICANTS		171	2	45	17	-	-	-	1	-	-	-	53	6	1
TECHNICAL FATS, OILS + Oil seeds for technical purposes		54	7	2	-	-	5	9	7	-	-	-	-	8	3
		32	-	-	-	-	-	-	-	-	-	-	-	4	28
OTHER CHEMICAL RAW MATERIALS (including tar distillation products)		48	-	11	-	-	2	-	4	4	4	2	-	6	-
ROSIN, COPAL AND SHELLAC		21	-	6	-	-	-	-	-	-	-	1	-	4	-
RUBBER, GUTTA PERCHA AND BALATA		66	-	-	-	-	-	-	-	-	-	-	-	18	6
BALL AND ROLLER BEARINGS		4	-	-	-	-	-	2	-	1	-	-	-	-	-

+ Including paraffin, stearine and wax, excluding whale oil.

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	Total	U.K.	U.S.A.	Russia	France	China	Sweden Norway Finland Denmark	Belgium Holland	Switzerland Italy Austria	Hungary Czecho. Poland	Greece Turkey	Roumania Bulgaria Yugoslavia	N.E.I. India Japan	Brazil Argentina Chile Mexico
HIDES AND SKINS	140	3	-	-	7	4	12	3	13	2	11	7	9	39
FUR PELTS, RAW	37	11	1	3	1	-	3	-	2	-	-	-	-	2
PHOSPHATES	40	-	15	2	1	-	-	11	-	-	-	-	-	-
of wh. (a) Phosphate rock	24	-	15	2	-	-	-	-	-	-	-	-	-	-
(b) Thomas meal	12	-	-	-	1	-	-	11	-	-	-	-	-	-
(c) Superphosphate and other	4	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER FERTILISERS (nitrogenous)	11	-	-	-	-	-	-	-	-	-	-	-	-	11
WOOD AND PRODUCTS	248	-	9	53	-	-	43	-	13	47	2	17	1	-
of which. Round timber	65	-	9	2	-	-	2	-	5	18	1	1	-	-
Sawn timber	92	-	2	26	-	-	17	-	3	13	-	16	1	-
Wood pulp and cellulose	16	-	7	-	-	-	14	-	1	1	-	-	-	-
Plywood and veneer and cooperage etc.	11	-	-	2	-	-	2	-	2	-	-	-	-	-
Pulpwood	50	-	-	23	-	-	8	-	2	14	-	-	-	-
Wooden goods (inc. cork)	8	-	-	-	-	-	-	-	-	-	-	-	-	-
TEXTILES: RAW MATERIALS	590	24	78	1	14	18	-	20	25	1	34	10	61	112
Silk and rayon	12	-	-	-	-	-	-	-	8	-	-	-	-	-
Wool and hair	229	18	-	-	12	10	-	13	3	-	18	2	2	53
Cotton	258	4	78	-	-	5	-	2	-	-	15	-	29	55
Flax, hemp, jute and sisal	81	-	-	1	-	3	-	5	14	1	-	8	30	4
Waste	10	2	-	-	2	-	-	-	-	-	1	-	-	-
YARNS	138	48	-	-	-	-	-	14	48	15	-	-	4	-
Silk and rayon and staple fibre	47	-	-	-	-	-	-	6	35	1	-	-	2	-
Wool	28	13	-	-	-	-	-	4	3	7	-	-	-	-
Cotton	15	32	-	-	-	-	-	1	9	1	-	-	-	-
Flax, Hemp, Jute etc.	18	3	-	-	-	-	-	3	1	6	-	-	2	-
PIECEGOODS, HOSIERY AND CLOTHING	57	18	-	-	-	-	-	-	16	3	-	-	1	-
MISCELLANEOUS:														
Raw petroleum and tar	25	-	4	-	-	-	-	-	-	-	-	-	-	10
Coal and coke	84	40	-	-	6	-	-	19	-	19	-	-	-	-
Bed feathers	24	-	-	-	-	4	2	-	-	7	-	6	-	-
Tanning bark and extract	18	-	-	-	-	-	1	-	3	-	1	1	-	3
Leather	26	5	-	-	-	-	-	6	3	1	-	-	4	-
Coal tar dyes, paints	17	-	3	-	-	-	-	2	9	-	-	-	-	-
Horses	14	-	-	-	-	-	1	5	-	4	-	-	-	-
Machinery	30	3	-	-	-	-	4	-	9	-	-	-	-	-
Electrical apparatus and machinery	18	-	-	-	-	-	-	6	4	4	-	-	-	-
Books, papers and pictures	14	-	-	-	-	-	-	3	9	-	-	-	-	-
Pharmaceuticals	7	-	-	-	-	-	-	-	4	-	-	-	-	-
Hand tools and other iron and steel manufactures	12	1	-	-	-	-	2	-	4	-	-	-	-	-
TOTAL ALL ITEMS	4,218	264	232	93	99	113	480	307	391	263	187	225	279	365

TABLE II. GERMAN EXPORTS IN 1936
(All figures in millions of RM)

50	Total	U.K.	U.S.A.	Russia	France	China	Sweden Norway Finland Denmark	Belgium Holland	Switzerland Italy Austria	Poland Hungary Czecho.	Greece Turkey	Roumania Bulgaria Yugo- slavia	N.E.I. India Japan	Brazil Argentina Chile Mexico
MINING														
Coal and Coke	388	-	-	-	86	-	26	101	109	23	3	4	-	7
Potash	51	6	10	-	-	-	7	11	-	5	-	-	5	-
Other Minerals	5													
Stones and Clays	44													
IRON AND STEEL & WANS. Total	765	33	21	24	18	36	94	98	71	17	33	30	46	84
Ships	46	7	-	-	1	2	10	-	-	-	-	-	-	1
NON-FERROUS METALS, ALLOYS AND SCRAP														
Wrought and unwrought	97	15	3	1	3	2	9	11	7	6	4	5	11	2
Finished metal goods	129	14	3	-	7	-	19	19	17	6	3	4	6	9
TOYS AND MUSICAL INSTRUMENTS	65	18	9	-	4	-	3	5	3	-	-	-	-	2
CERAMICS	59	7	2	-	3	-	8	6	8	2	1	3	-	6
GLASS AND GLASS-WARE	76	14	2	-	3	-	10	7	9	3	3	2	2	5
MACHINERY - Total	606	50	10	73	38	12	50	51	66	45	18	25	32	51
of which machine tools (including wood and stone working)	148	17	2	45	7	2	10	7	18	11	3	3	6	6
ELECTRICAL EQUIPMENT	258	13	2	8	13	8	45	33	28	15	8	16	13	20
PRECISION AND OPTICAL INSTRUMENTS, CLOCKS AND WATCHES	125	14	10	7	6	6	11	8	12	8	2	3	7	8
BICYCLES, MOTOR CYCLES & parts	31	-	-	-	-	1	6	6	3	3	-	3	2	2
OTHER VEHICLES, AIRCRAFT & parts	140	13	2	1	7	5	14	14	13	9	7	15	5	13
WOOD & PRODUCTS: Timber, round and sawn	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Pulpwood & mechanical pulp	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plywood	9	3	-	-	-	-	-	-	-	-	-	-	-	-
Manufactures inc. furniture.	30	6	-	-	2	-	2	6	3	-	-	-	-	-
CHEMICALS: Coal tar dyestuffs	135	13	6	2	4	14	10	9	12	17	1	9	22	7
Other paints, dyes, varnishes and laquers	47	6	1	-	2	2	7	6	6	2	-	-	2	4
Pharmaceuticals	111	3	2	1	2	3	5	6	15	7	4	9	10	19
Fertilisers	52	-	5	-	-	4	4	1	4	-	1	-	7	1
Other chemicals +	227	20	21	2	5	5	28	24	29	14	3	9	14	12
CHEMICO, TECHNICAL	87	5	3	-	3	1	4	4	6	1	-	1	3	2
RUBBER GOODS	40	4	-	-	1	-	6	6	5	-	2	2	3	4
PAPER, BOARD & PULP: Chemical pulp	21	2	7	-	4	-	-	2	-	1	-	-	-	3
Paper & board	81	13	2	-	2	14	4	10	3	2	-	2	13	5
BOOKS, PAPER GOODS ETC.	105	10	7	-	4	2	9	18	22	9	-	3	16	6
LEATHER (inc. shoes)	86	17	5	-	2	1	11	9	14	4	-	2	2	5

	Total	U.K.	U.S.A.	Russia	France	China	Sweden Norway Finland Denmark	Belgium Holland	Switzerland Italy Austria	Poland Hungary Czecho.	Greece Turkey	Roumania Bulgaria Yugo- slavia	N.E.I. India Japan	Brazil Argentina Chile Mexico
TEXTILES & CLOTHING: Yarns and rayon	109	-	-	-	-	-	18	6	8	12	9	32	-	7
Piecegoods of silk, rayon and staple fibre	66	20	-	-	3	-	13	10	3	-	-	-	2	2
Piecegoods of wool and hair	68	7	-	-	-	-	19	10	8	1	5	5	1	4
" " cotton	62	4	-	-	-	-	7	4	3	-	11	6	2	3
" " other natural fibres	17	-	2	-	-	-	3	2	2	-	3	1	-	-
Hosiery	75	19	4	-	2	-	11	17	5	-	-	-	-	2
Woven apparel (ex. hats)	54	9	-	-	-	-	11	20	4	-	-	-	-	-
Dressed furs and fur mans.	42	4	-	-	8	-	6	3	7	9	-	3	-	-
Other textile goods	28	5	-	-	-	-	5	5	2	-	-	-	-	-
BEER, WINES AND SPIRITS	18	4	2	-	-	-	2	2	-	-	-	-	2	-
OTHER ITEMS: Explosives	23	1	-	-	-	5	2	2	-	2	1	2	-	2
Food	61	5	6	-	-	-	1	3	2	3	-	-	2	-
Liquid fuels	37	5	3	-	2	-	6	4	6	3	-	-	2	-
Hats	9	-	-	-	-	-	2	3	-	-	-	-	-	-
Films (exposed)	6	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ALL ITEMS	4,768	406	172	126	254	132	558	607	575	275	143	228	235	332

+ including tanning extracts, and celluloid products. / including soap, cosmetics and photo-chemical products.

[E/C.N.1/Sub.1/C.1/1/Add.]

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The conclusions and recommendations attached are circulated for inclusion in the Draft Report already submitted by the United Kingdom Delegation to the Drafting Sub-Committee of the Temporary Sub-Commission for the Relief and Reconstruction of Devastated Areas.

PAKENHAM.

FOREIGN OFFICE, S.W.1.

30th August, 1946.

PART III - CONCLUSIONS AND RECOMMENDATIONS.

1. Food and Agriculture

Throughout Europe the harvest of 1946 will be better than a year ago. In nearly every country devastated by the war the production of cereals and potatoes will be higher than in 1945, and in some of the countries that had exceptionally low yields last year, there will be an increase of the order of 50%. In spite of this improvement total grain production of European countries involved in the war (excluding U.S.S.R. and the U.K.) will still be about 20% below the pre-war level; and in the countries that have suffered most it will be many years before the pre-war numbers of livestock are restored.

2. The Sub-Commission has been impressed with the important part that UNRRA has played in preventing widespread famine and promoting the initial stages of agricultural rehabilitation. It is in agreement with the resolutions passed by the UNRRA Council at its Fifth Session, and endorses the opinion that urgent action is necessary to ensure that international cooperation is continued in this field. The Sub-Commission also associates itself with the recommendation that F.A.O. should seek to provide "the maximum technical assistance in the expeditious re-establishment of agricultural production" in the liberated countries; and that suitably qualified UNRRA staff should be utilised by F.A.O. and by other organisations taking over the activities of UNRRA.

3. The Sub-Commission urges the importance of making special efforts to collect the maximum amount of food from the coming harvest for the non-farm population, either by tightening up State collection schemes, wherever they are in force, or by providing premiums or other incentives to producers to market their crops.

4. The Sub-Commission is confident that as transport and facilities for mutual trade are restored, those European countries that have a surplus of grain, sugar and other foodstuffs will be able to play a larger part than last year in meeting the needs of neighbouring countries which have a food deficit.

5. We have been struck with the variety of rationing systems and price control measures in different countries and the varying degrees of success with which they are administered. This is no doubt largely due to differences in the degree of food shortage and inflationary pressure in the various countries. We suggest that, as food supplies improve and inflation is checked, it may be desirable to expand the scope of free markets and to limit attempts at control to essential commodities which can in fact be efficiently controlled.

Coal.

6. The restoration of the pre-war level of coal production is the most important condition of European recovery. The combined production of the seven largest producing countries, including/

including the United Kingdom is still about 25% below the pre-war level, and the output of the Ruhr and Saar mines is less than half what it was in 1939. The chief obstacles to be overcome are the shortage of skilled workers, the low rate of output per man-shift, arrears of maintenance, lack of equipment and transport difficulties.

7. The Sub-Commission has noted and endorses the recommendations of the Conference held in Paris in May, 1946, under the auspices of the European Coal Organisation at which the remedial measures designed to overcome these obstacles were discussed. The main functions of the European Coal Organisation is to ensure the equitable distribution of all available coal between its member countries. So long as present shortages continue, some such organisation is clearly necessary. We therefore recommend the continuation of this body until such time as its activities can be effectively taken over by the Economic Council for Europe.

Transport

8. At the conclusion of hostilities the European transport system was virtually paralysed and it is bound to take many years to restore it to its pre-war level. But in spite of the chaotic conditions left by the war a marked improvement has taken place during the past twelve months. Since its inception in May, 1946, the European Central Inland Transport Organisation has performed a most useful role in securing the cooperation of railway administrations, and the Sub-Commission emphasises the need for the continued existence of this organisation until such time as its activities can be effectively taken over by the Economic Council for Europe.

9. The Sub-Commission desires to stress the urgent need for speeding up and giving a high priority to the repair and re-equipment of the European main railroads, including the lines carrying international traffic through Germany.

10. The Sub-Commission recommends that, in considering the needs for further financial assistance to devastated countries, special priority should be given to loans for the reconstruction of ports, railroads and inland waterways, and for the financing of imports of locomotives and wagons.

11. In the interests of speedier economic recovery, we attach the greatest importance to the removal of obstacles which are impeding the revival of European inland transport, whether by road, rail or inland waterway. To this end, we recommend that the fullest use should be made of the technical services of international bodies such as the European Central Inland Transport Organisation. From the point of view of economic recovery of countries devastated by the war, we cannot exaggerate the urgent importance of resolving the political problems which hamper the restoration of international traffic, particularly on the Danube.

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ANNEXES B;C;D; MISSING
NOT IN U.N.LIBRARY SET

[E. C. M. / 5. 4 / 27]

TEMPORARY SUB-COMMISSION ON ECONOMIC RECONSTRUCTION
OF DEVASTATED AREAS.

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MEMORANDUM ON WAR EFFORT AND WAR DAMAGE IN
THE UNITED KINGDOM.

It is difficult to compare the position of countries which suffered the tragic fate of being occupied by the enemy with that of countries which escaped this tragedy. It would be altogether wrong to draw from the facts now presented the inference that the United Kingdom has emerged from the war as an impoverished power, which no longer has the means to take a leading part in the world's affairs as it has done since the beginning of the eighteenth century. The real wealth of the country consists in its soil, its mines and its industrial equipment and, even more, in the industrial skill and intelligence of its workers and the enterprise shown in trade and industry, whether by public bodies or by private firms. Judged by these standards, the United Kingdom is entitled to look to the future with every confidence.

On the other hand, the facts given show the intensity of the war effort of the United Kingdom and the sacrifices which this intensity of effort involved, both in the economic and in the financial sphere.

The cost of the war to the United Kingdom has been, in round figures, £26,000 million, or \$104 billion. This means that time, work and energy to the tune of over \$100 billion dollars, which might have been spent in improving the standard of living of the people of the United Kingdom, was instead spent in striving for victory which was at last achieved.

To put the matter in another, and perhaps more striking way, 44,500,000 man years were spent in the Armed Forces and in the production of munitions up to the end of the war, and thus were not available to maintain and improve our standard of living. Vast Armed Forces cannot be demobilised in the twinkling of an eye, and heavy expenditure, whether you count it in money or in man years, has been devoted to non-productive defence expenditure since the end of the war.

There are many other ways in which the intensity of our war effort can be illustrated. At the peak of the war ten million people out of our working population of twenty-two million, were engaged in fighting and in munitions production. Out of sixteen million women, seven million were in the Services, whole-time civil defence or industry.

Our war effort altered the whole pattern of our life. The quantity of both wheat and potatoes harvested in 1943 was more than double the pre-war average. Magnesium production increased to more than eleven times the pre-war rate, while the production of many articles, such as motorcars and refrigerators was completely suspended.

No arithmetic of human suffering can establish exactly the relative war losses as between the Allies. But after many weeks of deliberation, agreement was reached that the United Kingdom is entitled to claim 28% of the German reparation available to the eighteen countries represented at the Paris
/Reparations

Reparations Conference. The delegates to this Conference will have seen the war scars of London, but other cities and towns in the United Kingdom have suffered even more concentrated war damage. Four million houses in the United Kingdom were destroyed or damaged, which represents nearly three out of every ten of the houses which existed in 1939. Perhaps a simple figure like this brings home the extent of the damage suffered even more clearly than the estimate that the total cost of physical damage to property amounted to £1,300 million on pre-war values, ~~whereas~~ £2,000 million at present values, and that the extent to which property has deteriorated owing to failure to preserve a normal standard of maintenance amounts to not less than a further £1,000 million. Houses which have been destroyed or damaged can be rebuilt or repaired, although this will take a long while. But lives which have been lost are irreplaceable. Our fatal casualties amounted to 386,000 and the number of wounded or seriously injured to 383,000.

Finally there is one form of loss which has been suffered by the United Kingdom, and by the United Kingdom alone among the Allies. Since September 1939 the position of the United Kingdom on international capital account has deteriorated by some £5,000 million, or £20 billion. This represents over £100 or £400 per head. The nature of this tremendous reversal of our former position as a creditor country is analysed and explained on paragraphs 4-10 of a document (Cmd. 6707) which was presented during the Anglo-American discussions in the autumn of 1945. This authoritative analysis of the matter was as follows:-

II.- The Causes of the Prospective Overseas Deficit of the U.K. in the Transitional Period.

The immediate problem is the direct legacy of the U.K. effort in the war. The foundations of the U.K.'s normal economic life are a high degree of industrial specialisation, a substantial dependence upon imported foodstuffs and raw materials, and the maintenance of a volume of export trade and of other sources of foreign exchange earnings adequate to pay for those imports. Before the war the U.K. was dependent on imports for two-thirds of the food consumed by its people and, apart from coal, for the bulk of the raw materials used by its industries. But the U.K. paid for such requirements by the proceeds of its exports and by the earnings of its shipping and other services rendered to overseas countries and of its investments abroad.

The effect of the war was to bring about a severe dislocation of the U.K. position in several respects, which will inevitably take some years to remedy; namely, loss of exports, loss of overseas investments, loss of shipping, increase of overseas debt, and loss of reserves.

Loss of Exports. - The loss of U.K. export trade during the war was to a large extent the consequence of a deliberate act of policy. An attempt to maintain U.K. export trade at a high level would have stood in the way of the full degree mobilisation of manpower, production, and materials for the direct war effort which the situation of the U.K. required as being/

being the base of operations nearest to Germany. But food, munitions, and raw materials still had to be imported. The operation of Lend Lease from the U.S., Mutual Aid and other contributions from Canada, and sterling credits from other countries, made this compatible with the deliberate abandonment of the export trade. The decision, that the U.K. should in effect disregard the maintenance of export trade in favour of the maximum concentration of resources on the armed forces and war industry, undoubtedly constituted a rational and proper allocation of effort between the Allies which was willingly accepted by the U.K. in the interests of winning the war. But the outcome has been that British export trade shrank to less than one-third of its pre-war volume, and, despite some recovery, may be expected to cover in 1946 not more than one-half of the essential expenditure of the country on the purchase of a minimum volume of imports and on other necessary payments overseas. Thus with the end of the war and the termination of Lend Lease and Mutual Aid a period of acute difficulty must be faced until the reconversion of industry, the release of manpower and the recovery and expansion of export markets have begun to result in a substantial flow of exports.

Loss of shipping. - More than half of the pre-war tonnage of British merchant shipping was lost during the war. Allowing for new building in the war, U.K.-owned tonnage is now less than three-quarters of the pre-war figure. Until the fleet has been expanded and carrying trades abandoned in the war have been recovered, the net income available from shipping services to supplement U.K. purchasing power abroad will be greatly below pre-war level.

Loss of Overseas Investments. - It is estimated that the net income from overseas investments in 1945 will be less than half that received in 1938. This reflects the extensive liquidation of foreign securities, the repatriation of loans by overseas debtors, and the increased interest payments to holders of sterling debts caused by the heavy war expenditure which the U.K. has had to incur overseas. Thus nearly all the marketable U.S. dollar securities of U.K. nationals were compulsorily acquired for sale or pledging in order to finance the purchase of munitions and the construction of war plants in the U.S.A. before the operation of the Lend Lease Act.

The Increase of Overseas Debt. - The interval of time which must inevitably elapse, before the export trade can be recovered and the loss of income from investments and shipping can be made good, would have brought about a position of serious difficulty for the U.K., even if overseas expenditure had remained at pre-war levels. But the exigencies of the war involved the U.K. in enormous cash expenditure overseas. Large military forces had to be maintained in the Middle East to engage the Germans there; even larger forces operated against the Japanese in Burma and the Far East. Supplies on an immense scale had to be acquired in addition to those furnished under Lend Lease and Mutual Aid to sustain these forces. All this involved a great outpouring of expenditure in local currencies, particularly/

particularly in India, Egypt and Palestine, whether on troop pay, the building of aerodromes, railways or roads, or the payment of local labour, or on the acquisition of supplies. Such expenditure could be covered only to a limited extent by exports or by the liquidation of investments; the result has been that the U.K. has incurred huge debts in the form of accumulated sterling balances. Nor can this substantial burden of overseas payments be brought to an end with the day of victory. There will inevitably remain heavy commitments to be met overseas before all British troops can be withdrawn from the distant fronts on which they have been engaged. Thus apart altogether from the repayment of the war debts a further substantial, though temporary, burden of current expenditure abroad has to be sustained at a time when British exports and other sources of overseas income are quite insufficient to finance even an import programme on the barest minimum level.

. Loss of Reserves. - Nor has the U.K. sufficient reserves from which to fill the gap. The gold and dollar holdings of the U.K. and of the other countries in the Sterling Area were mobilised and freely spent in the early critical days of 1939-1941 mainly for the purchase of vital war supplies from the U.S.A. During April, 1941, soon after the passage of the Lend Lease Act, but before its effects could be felt, the reserves fell to only £3 million. They have now to some extent been built up again largely because the pay of U.S. forces in the Sterling Area brought considerable dollar sums into the country, a state of affairs which of course ceases with, or soon after, the end of hostilities. But they are still below the pre-war level, and are manifestly inadequate in relation to the immediate needs of the U.K. itself and to the problem of releasing the accumulated sterling balances.

But in presenting a statement of one's losses it is an advantage to be able to rely on the impartial testimony of a friend. The following is an extract from the statement made by Mr. Secretary Vinson, as he then was, before the House Banking and Currency Committee on May 14th 1946.

England is a country that must live by imports. Two-thirds of the food consumed by the British people and virtually all of the basic raw materials, except coal, used in British industry must be purchased abroad. As a consequence, England is a great importing country. She is the best customer of the United States and of a score of other countries.

England's international economic position has been seriously distorted by the war. For five years, England was the principal target of the Luftwaffe, as well as the principal base of operations of the western allies against Germany. Her life was at stake, and ours. The punishment which she took - and which she handed out - wrote stirring chapters in the history of free men.... During the war, England had little time to think of her export trade. She devoted every resource which she could mobilize to her defense and to the attack on the enemy. British exports fell until, by 1944, they were only/

only 30 percent of their prewar volume. The men released from the export industries were put to work at war production or were inducted into the armed forces.

Lend-lease from the United States and mutual aid from Canada filled part of the gap between her wartime needs - mostly for our common cause - and her current supply of foreign exchange. Nevertheless, she had to draw heavily on her accumulated foreign exchange resources, and strain her credit abroad in order to secure her essential war imports. She sold \$4.5 billion of her foreign investments; she reduced her gold and dollar reserves by \$615 million; and she incurred foreign debts which now amount to more than \$13 billion, very largely blocked sterling balances held by foreigners in London. As a result of her war effort, Britain's international financial position deteriorated by about \$17 billion from 1939 to 1945.

Meanwhile, Britain's earnings abroad from shipping and other services have also been sharply reduced. Because of enemy sinkings, the British merchant marine is one-fourth smaller than before the war, in spite of the large building program. The earnings from financial and commercial services have fallen off along with England's trade and shipping. With the recovery of world trade, these services will again expand and become an important part of England's foreign business.

Before the war the British people were able to earn enough from their exports and their services to foreigners to purchase abroad the food and raw materials essential to their economy. In 1938, about one-half of Britain's imports was paid for by the export of British goods. About one-fourth was paid for by services of the British merchant marine, insurance companies, and other financial and commercial institutions. An additional one-fourth was paid for out of the net income of British capital investments abroad.

The British people have industriously set about to restore their international economic position. They are reconverting their war industries to civilian production. They are making a determined effort to increase their industrial efficiency. They are exporting as much as they can without depriving themselves of the essentials of life. These are problems which the British people must work out for themselves over the next few years.

ATTACHMENTS

ANNEX "A" Statistics relating to War Effort and Damage.

ANNEX "B" Housing Return for England and Wales, 30th June, 1946.

ANNEX "C" Housing Return for Scotland, 30th June, 1946.

ANNEX "D" Monthly Digest of Statistics for July, 1946.

STATISTICS RELATING TO WAR - EFFORT
AND WAR DAMAGE.

The following is a summary of effort expended and loss sustained by the United Kingdom (including the Channel Islands) in the war against Germany, Italy and Japan.

(i) Physical Damage to Property

	£ stg. millions	
	(at 1938 replacement values)	(at current values)
Industry and Commerce	352	536
Ocean and Coastwise Shipping (including cargoes)	437	694
Harbours and Ports	19	30
Railways and Inland Water Transport	23	36
Roads and Highways	4	6
Agriculture	3	5
Public Institutions and Municipal Enterprises	68	115
Household Goods and Personal effects	67	89
Gold and Silver		
Houses and Buildings not otherwise included	312	526
Other Material, Damages and Losses	16	25
Total	<u>1,301</u>	<u>2,062</u>

(ii) Budgetary Expenses

The following table shows the budgetary cost of the war to the U.K.

1. <u>War Period</u>	
September 1939 - April 1945	21,800
May 1945 - Mid-August 1945	1,310
2. <u>Pre-War Period</u>	
January 1938 - August 1939	625
3. <u>Post-War Period</u>	
Mid-August 1945 - March 1946	2,125
4. Channel Isles (Budgetary expenses and costs of occupation)	15
	<u>25,875</u>

(iii) Man Years

These figures cover the period from September 1939 to the end of hostilities only.

In Armed Forces (including Civil Defence and Merchant Navy)	24.5 millions
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In munitions etc. production	20.0 millions
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(iv) Loss of Life and Injuries

As in the case of (iii) above these figures extend only from September 1939 to the end of hostilities.

(i) KILLED	Armed Forces	290	
	Civilians	<u>96</u>	386 thousands

(ii) WOUNDED or)	Armed Forces	279	
SERIOUSLY)	Civilians	<u>104</u>	383 thousands
INJURED)			

(v) Overseas Disinvestment

Net sale of assets and increases in liabilities to countries abroad has been as follows:-

	<u>£ millions</u>
1939 (Sept.-December)	210
1940	804
1941	816
1942	656
1943	682
1944	651
1945	817
	<u>4,636</u>

It has been assumed that overseas disinvestment for 1939 and 1945 was wholly attributable to the war.

1st August, 1946.

9 August 1946

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REPORT OF THE GOVERNMENT OF THE UKRAINIAN SSR
PRESENTED TO THE TEMPORARY SUB-COMMISSION ON ECONOMIC
RECONSTRUCTION OF DEVASTATED AREAS

GENERAL PARTICULARS OF THE DEVASTATION CAUSED IN THE
UKRAINE BY THE GERMAN OCCUPATION

Below are particulars of damage caused in the Ukraine by the occupation of the Nazi invaders. These are based on statements of the collective farms, various public, voluntary and state undertakings and institutions:

Killed and tortured of peaceful population.....	4,496,574 people
Killed and tortured of the war prisoners.....	1,318,463 "
Soviet citizens transferred to slave labour in Germany.....	2,023,112 "
Destroyed and burnt towns.....	714
Destroyed and burnt villages and hamlets.....	28,000
Private dwellings destroyed and burnt - more than 2 millions.	
Other buildings destroyed and burnt.....	540,000
Rendered roofless, about.....	10,000,000 inhabitants
Destroyed industrial undertakings	16,150
Destroyed and taken away:	
Electric motors.....	127,800
Metal working machines.....	81,600
Destroyed kilometres of railway line.....	29,800
Destroyed Railway stations.....	1,916
Destroyed Post & telegraph offices.....	14,000
Destroyed Hospitals.....	18,000
Destroyed schools, technical colleges, university establishments.....	32,930
Destroyed Libraries.....	19,200

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Destroyed and robbed collective farms.....	27,200
Destroyed and robbed state farms.....	872
Destroyed and robbed machine and tractor stations.....	1,300
Cattle taken away and/or slaughtered	7,594,000
Horses do. do.....	3,311,000
Sheep and goats do. do.....	7,317,000
Fowls do. do.....	52,297,000
Damage caused to the property belonging to private citizens or to the State to the amount of 285 billion roubles, based on State prices of 1941.	

The above figures do not cover the whole damage caused by the Nazi invaders in the Ukraine, as they represent only the direct amount of damage resulting from destruction.

The above does not include such losses resulting from the decline in public revenue due to stoppage or the reduction of work of State undertakings, collective farms, military expenses and also due to losses resulting from the total or partial stoppage in the development of the country's economy due to enemy action.

Additional material is being obtained and will be submitted in due course.