

RESTRICTED

2277

EFFECT OF FOREIGN AID PROGRAMS ON THE ECONOMIC
POTENTIAL OF FRANCE

29 April 1949

CONTENTS

	<u>Page</u>
INTRODUCTION--Major General A. W. Vanaman, USAF, Commandant, ICAF.....	1
SPEAKER--Mr. David K. E. Bruce, Chief, ECA Special Mission to France.....	1
GENERAL DISCUSSION.....	11

Publication No. L49-121

THE INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

2270

EFFECT OF FOREIGN AID PROGRAMS ON THE ECONOMIC
POTENTIAL OF FRANCE

29 April 1949

GENERAL VANAMAN: Gentlemen, in our present raging struggle for peace throughout the world, the economy of the European nations is an important battleground. Especially important is the economy of France. From his biography and from his history, and from his work as Chief of the Special Mission to France, ECA, we all know of Mr. Bruce's outstanding qualifications to discuss with us the "Effect of Foreign Aid Programs on the Economic Potential of France."

It is my great privilege and pleasure to present to the Industrial College of the Armed Forces, to the National War College, and to our guests--Mr. David Bruce.

MR. BRUCE: I think in considering the effect of the programs of aid extended by this country to France, we ought to review for a moment the history of the French economy. As you all know, until about the middle of the eighteenth century France had been for approximately a hundred years or longer the most powerful nation in Europe, powerful not only militarily but economically. About that time the British Empire began to take away certain portions of the French Empire; and by the end of the century France had fallen, not to the status of a second-rate power, but decidedly second in influence to Britain.

The great revolution of 1789 had a very profound effect on the French economy. Traditional institutions were swept away. There was an entirely new feeling in the country. And, as you will recall having read, a considerable interval, during which the most chaotic conditions prevailed, separated that time, the date of the revolution, 1789, from the period in which Napoleon finally established order again. If we will consider 1800 as a sort of starting date for French history, I would like to use that as a basis for certain observations about the French economy today.

Soon after Napoleon came into power, he for the first time established a central bank in France. He for the first time codified the laws and brought about a kind of democratic society--although it was an anomaly in name because of the nature of his rule--which has persisted since that period throughout French history.

Now, it is almost incredible that, after the physical and financial losses that were suffered while Napoleon's armies were over-running Europe, the French economy was able to restore itself. He went

RESTRICTED

RESTRICTED

2150

into exile in 1815. By 1825 the effect of the new land laws had become fully spread through the population, and French agricultural production about 1825 reached a volume which never before had been known to French history.

The industrial commencement or industrial revival started later than this agricultural development, but by 1850 France had the largest railroad transportation network in the whole of Europe. I think, looking back on it, one can probably say that from 1850 to 1870 France was the most prosperous country in the world. I am speaking always in economic terms.

After the Franco-Prussian War an indemnity was levied amounting to about one billion dollars in our money as of that period. It was never believed by the Germans, or by most of the other people of the world, that France would pay that indemnity within a reasonable time. Actually, as we know, it was satisfied very quickly; in spite of the great debt, internal and external, which had been caused by the operations of the Franco-Prussian War, by 1876 France had a balanced budget and had started again to recapture the prosperity which had existed between 1850 and 1870. The economy continued along favorable lines until about 1913, with fluctuations; but in the first thirteen years of the twentieth century France was again, so far as the Continental powers were concerned, the most prosperous in an economic sense.

All of you know well the results of World War I. The favorable balance of trade, the very large accumulation of gold in France, the very great foreign balances, were exhausted as a result of the war; and France became a debtor country as a consequence.

Speaking of war casualties--they have great significance from the population standpoint--France suffered in World War I about one and one-third million men killed. The number of wounded was greater than four million. In fact, there was a decimation of the male population between the ages of 20 and 35. That has had, in my opinion, the most profound influence of any single consideration on French economic history during the twentieth century.

Now, if I may skip a bit, since I started on the subject of population, in World War II the losses of the French armed forces in kill were 154,000 men. Sixty-five thousand men, women, and children were killed in air raids or from shell fire. Thirty thousand men and women were executed for resistance. Eight hundred and twenty-five thousand men were sent to Germany, though many of them were voluntary workers. Of that number 225,000 were either killed or died there. This does not include any figures on prisoners of war. These figures are very significant. I think so far as World War II is concerned, they are not widely known in regard to the French population.

RESTRICTED

Going back once more to 1800, the population of France in that year was 26.5 million. By 1845 the population had risen to 35 million, but in 1946 the population was only 40.5 million. During the last 40 years, coming up to the present time, the increase of population in France has been less than one million people in spite of the fact that there has been a fair amount of immigration into France, immigrants who have settled there and become citizens. So you have, certainly so far as this century is concerned, an almost static population.

Now, I dropped matters, economically speaking, at the end of World War I. Let us take them up again from that point.

Accompanying these losses of people, therefore the inability to make the industrial machine function, and the loss on a very great scale financially of her most important assets abroad, France had a raging inflation which many of you remember. That was brought to an end in 1926 under the regime of Poincaré, and it is a very interesting thing to study exactly what occurred at that period. The inflation, which was so widespread that it seemed desperate and hopeless, was actually overcome by the application of the most orthodox financial methods. The budget was balanced by raising taxes significantly and taking all of the foreign assets on which the French Government could lay its hands. By 1927 the economy was functioning in a financial sense almost normally.

In 1929 the production in France, agricultural and industrial, was the greatest in its history. Another fine year was 1930. But from 1931 on, the economy of France began to stagnate, and for the nine years preceding World War II it remained in a state of stagnation. There was no net investment in the country. There was a shortage of capital which persisted from the time that Hitler came into power in Germany up until the outbreak of the war, and this continued after the war came to a conclusion.

So in using any index in regard to the French economy you have to look back to 1929, that having been the most prosperous year the country had ever known. I refer to 1930 as the base year for any calculation as to improvement of the economy simply because the statistics for that year were better than they were for preceding periods. I will try to relate what I have to say from now on to 1930 as a basis.

I have spoken of the losses and the effect on manpower caused by World War II. But one of the most profound effects of that war on the industrial and agricultural situation was the dislocation of the population. In 1944, at the time of liberation, industrial production had declined to about 20 percent of what it had been in 1930, and agricultural production to about 70 percent of what it had been in that year.

RESTRICTED

Now, the French were faced with a dilemma--whether to expend what resources remained in an attempt rapidly to bring about an economic revival or whether to adopt the practice of some of the other European nations and lay out a long-term program, expending their money cautiously and making it revival something which was hoped for in the distance rather than anything they could hope to accomplish in the present. They chose the first course so in 1944, 1945, and 1946 they laid hands on approximately two billion dollars of assets, expressed in our terms--the gold in the Bank of France and whatever they could discover in the way of securities abroad that could be repatriated by government order. That money was used to build up capital equipment and to some extent to restore the damage that had been suffered by the civilian population as well as by the factories during the war period.

I might say in that connection that not only in World War I the destruction in France, which had been largely a battlefield for four years, was lower than it was during World War II, but the number of factories destroyed the second time was considerably in excess of those destroyed the first time. The number of industrial establishments attacked was greater, because of their geographical location in the part of the country affected by military operations, especially as a result of bombing, than it had been in World War I. Half a million domestic homes were completely destroyed and about 1.5 million were rendered uninhabitable, a figure which strange enough is higher than that in Great Britain, where bombing spread over a far longer period of time. At any rate you had a broken-down industrial France.

You also had a worn-out agricultural economy. Erosion in fields, so far as fields ever erode in France, worn-out machinery, lack of fertilization, etc., caused an entire change on the agricultural side, not only in the variety of crops, but in the use of the tillable land which has had dire consequences.

After spending and exhausting the two billion dollars of which I spoke, the French began to borrow. They got large credits from Canada and Great Britain in the first instance, and later from the American Government and from independent agencies such as the International Monetary Fund and the International Bank. Another two billion dollars went in that direction. At the end of the period, when the Marshall Plan came into effect, the French had spent in external assets between four and five billion dollars and were financially speaking almost bankrupt in the absence of extraordinary outside assistance. There remained, as there remains today, in the Bank of France the sum of about 450 million dollars in gold, most of it encumbered an amount grossly insufficient to meet the normal needs of a central bank even for a country much smaller than and much less important than is France.

Now, in the winter of 1947, all credits having been exhausted, all the domestic resources on which they could lay hands having evaporated or having been used up, the American Congress made an extraordinary grant to France, (as well as to Italy and Austria,) to carry it through the winter. In the spring of 1948 interim aid came into being and carried the French economy along until the Marshall Plan aid became available on 3 April 1948.

What was the extent of the Marshall Plan aid? In the first year it was 931 million dollars of direct aid and 323 million dollars of indirect aid, making France the largest recipient of the Marshall Plan assistance of any of the participating countries.

The object of this plan was to enable the economy of these participating countries so to operate that at the termination date in the middle of 1952 the countries would be independent of what was called extraordinary outside assistance. If there remained a deficit in the balance of payments, it was envisaged that the deficit should be cared for by the normal operation of credits if the country was not able to balance its account without receiving assistance of an ordinary nature from other countries.

It would be very difficult to say at this point specifically what has been accomplished by ECA aid. One has first of all to look at the figures. In the year 1948 industrial production increased to a point where it was about 110 percent of the production in 1938. Agricultural production increased to a point where it represented about 95 percent of the production in 1938. France became toward the end of the year 1948 self-sufficient in human food-stuffs for the first time in many years.

Now, that is an accomplishment which is satisfactory provided that it serves as a basis for future expansion. In a moment I will tell you why I make that qualification--that in spite of the fact that the production over-all was better than it had been in the last prewar year for which we have satisfactory records, it will, however, have to expand very much if France is to become eventually independent of this type of extraordinary outside assistance. Since liberation there have been two great problems which the French have had to face in the economic field. One of them is the internal problem of inflation. The second is the external problem of balancing payments.

As regards the first, I spoke of the way the Poincaré regime of 1926 had adjusted to a somewhat similar situation, although conditions at that period were not nearly so bad as they are today. In the year 1948 there were four different cabinets in France. The one which remained in power from the beginning to the middle of the year accomplished certain difficult and praiseworthy reforms in its finances. It fell from power, however, when it became apparent that the budget, being far from balanced, was in such a situation that inflationary forces were again taking hold of the country.

RESTRICTED

There were two successive governments which remained in office for such a short time that they were unable to carry out a program. The last cabinet, which still remains in office, assumed its duties in September 1948. It immediately began to institute a series of fiscal reforms. The nature of those reforms is quite simple, and they were accepted by Parliament and the French people because the inflationary situation was desperate.

First of all, taxes were raised to an extent which represented the highest taxation in the history of France. I might say that in 1949 they have again been raised, so that the returns for the year 1949 will be by far the highest which have ever been known there. The fiscal burden, so called, amounts in France to approximately 27 percent of the national income. As a basis of comparison I would say that in the United States the fiscal burden amounts to between 21 and 22 percent, although there may be some question as exactly to what it will be for this year.

Parenthetically, I might say that some of the elements of French taxation are extremely inequitable. There are many people who ought to pay taxes who avoid paying them. Over-all the total take, the fiscal burden is probably as great as any country could stand, with the single exception of Great Britain, where it is very considerably higher.

Now, after enacting this legislation, which, of course, met with opposition from any number of pressure groups, the French cabinet took another step which had before that time been unknown in French economic history. It instituted quantitative credit controls. One of the great leaks, one of the factors making for inflation in France, had been the traditional use of credit; for example, during the inflation any merchant, any manufacturer, any importer, or anyone who was dealing in goods, could sit on his inventory, borrow money from the banks to carry his inventory, and let the prices rise through inflation to a point where he could satisfy his loan and probably make a profit. That also had a very marked influence in the inability to export from France, especially to the hard currency countries, goods which would have had the result of diminishing to some extent at least the unfavorable balance of trade.

Now, the Government carried out other orthodox activities in regard to inflation, but the net result at the present time is that whereas last autumn the black market rate for the dollar had gone as high as 550 franc today the official rate for the franc is 329 to the dollar versus 318 last autumn and the black market rate for the dollar is about the same as the official rate. So, instead of losing about 80 percent of tourist proceeds as they did last autumn, it is believed now that the French Treasury is receiving directly over 80 percent of all the hard currency which is expended by tourists. That is a most significant change, because tourist receipts represent the largest single item among the French invisibles which may be brought to bear on the unfavorable balance of trade.

I have spoken of inflation as being the great domestic problem in France. It is at this time being held in check. Whether they can continue to hold it in check, whether this whole balancing operation, which has resulted in a lowering of the price level, which has resulted for the time being in a cessation of demands to raise wages, will be ultimately of tremendous significance if an attempt is made to stabilize the French currency permanently, depends not merely on the financial steps of which I have spoken, not merely on their effect in the economic field, but, probably equally important, on whether the French Government, acting under the will of the French people, can maintain for a considerable period of time a political stability which has been so sadly wanting in the French history of the last fifteen years.

I would like to pass very briefly over the great external problem of the balance of payments. Before the war the French had no balance no difficulty in satisfying whatever their current trade deficit might have been. They were satisfying it with tourist receipts and from many other sources--out of the proceeds of the merchant marine and insurance, for example. Most of that was lost. It will be a long time before the invisibles on balance will result in any net gain to the French Treasury.

In the year 1946 the adverse balance expressed in dollars was in excess of two billion. In 1947 it was approximately 1.7 billion dollars. In 1948, when it was hoped that the situation would improve, the adverse balance, the adverse deficit, was actually somewhat greater than it had been in 1947. So, although inflation has been checked, the situation as regards balancing her international accounts remains to confront France in a very serious and grave way.

Advances, however, have been made during the first three months of this year. Exports were very greatly improved in January, February, and March, as a result chiefly, I think, of the fiscal reforms that I have mentioned. The prospects for the remainder of our fiscal year in regard to the foreign export trade of France appear to be excellent.

That is a very gloomy picture as regards external finance. I would like to add the comment that the French themselves believe that they can cope with the situation. Their four-year program, which was submitted to the OEEC, the Organization for European Economic Cooperation, envisages an increase in French industrial production as compared with the last half of 1948 of 40 percent and an increase of agricultural production as contrasted with the last half of 1948 of 25 percent. If those theoretical increases take place, the plan also contemplates a level of export, especially in lines of goods that France has not traditionally exported, which should by the middle of 1952 bring her balance of payments into an approximate evenness.

I don't want to get you all tangled up in details as to how that is supposed to be done, except I would like to make one personal comment on the

RESTRICTED

2230

program. It would seem to me that the industrial production part of it would not be unrealizable. There is still idle plant capacity in France. There is still a great opportunity to increase industrial yields by the augmentation of man-hour productivity. The French are very keen about doing that, as new machinery becomes operative and above all as supplies of raw materials become available. That goal, as I said, is not an impossible one to attain.

I think on the agricultural side it is more difficult. There has been, as I said before, a change during the war, which still persists to some extent today, in the nature of the crops planted. Their wheat in 1946, when harvested, produced a crop of about 7.5 million metric tons, as contrasted with the prewar average of about eight million metric tons. Seven and a half million tons are enough to feed the whole French population. But it was actually harvested from an acreage of about 20 percent less than had been planted in 1936. And the reason is not hard to find. As the German occupants and the French Government had successively done, controls were levied on wheat as the great staple food of the population. But the farmers, knowing they had to sell their wheat at a fixed price, had a tendency to plant as much acreage as possible in crops which were not subject to control and which were not subject to a fixed price.

That leads one into the whole question of agricultural subsidies; I can assure you that politically that problem in France is just as hot as if not hotter than, it is in this country. In France about 50 percent of the population derives its total livelihood directly or indirectly from agriculture. I don't know of any other country in Europe where this is true. In our own country, as you know, about 20 percent of the population are in that category.

The French labor force consists of about 21 million people out of a population of 42 million. One-third of that number works on farms; one-third in industry; and the other third in the professions, in the government service and in the distributive trades. So you have a wonderfully balanced labor force, with very little unemployment. The highest rate of unemployment ever known in France was during a year or two in the thirties, when unemployment rose to about 5 percent of the population.

Now, to get back to agriculture, they need additional labor on the farms. It is possible with additional labor, with increased use of nitrogenous fertilizers, and with a greater number of tractors operating in fields capable of tractor tillage, to achieve this goal of 25 percent increase. It is not simply a goal of imagination. I mention it particularly because that is the great question mark which our own agricultural experts from the Department of Agriculture have about the French four-year program. The goal of increase is very important because although reorientation of their traditional trade the French hope for the first time to become large exporters of basic agricultural products for which they believe there will always be a world market at a profit which will not be a substantial foreign proceeds in the way of hard currency exchanges.

One more word on this knotty subject of balance of trade. One of the other features about it on which the French are counting very heavily is to change the adverse balance of 200 million dollars from their overseas possessions at the present time into a favorable balance of about 170 million dollars by the middle of 1952. The resources of the French Union are very little known as compared with the contrast between what has been explored and what may be in territories which are completely undeveloped, and many of which are largely unexplored. But that there are mineral riches existing in the French Empire to which little attention has been paid until last year is something that almost all mining engineers agree upon.

One of the areas to which the people charged with conducting the Marshall Plan have given the greatest attention is the field of colonial development. I might say that the French have shown the very greatest interest in it themselves. I think we are going to witness a cooperation on the part of French owners and concessionnaires with foreigners which has never been known before in French history and which in the course of time may result in a very substantial contribution by overseas territories toward the reduction of this adverse balance.

But there is one remaining feature of which I would like particularly to speak which is of interest to all of you. Part of that changeover from an adverse to a favorable balance is predicated on the restoration of completely normal conditions in Indo-China. At the present time the French are getting very little from Indo-China. For the most part the trade flowing from Indo-China represents a fraction of what it was, and I for one am extremely skeptical that over the period of the next few years there is going to be any such restoration as that for which the French are planning. That will not necessarily be fatal to that of which I have spoken--this change-over to the extent of approximately 370 million dollars coming from the overseas territories--but it would make quite a big dent in it.

The hopeful thing about the French economy from the balance of trade standpoint is that, indeed, there does exist in the country a very large stock of gold and foreign exchange, which would probably come out of hiding, would probably be freed again and be exchanged for goods, services, and so forth, as soon as the people had a restoration of confidence in their own currency, a restoration which has already become evident to some degree and which has contributed to the increase of exports of which I have spoken and the control of the black market.

So much for the French four-year program. France is perhaps in a better position than any other country in Europe to realize its Marshall Plan aims. But had it not been for the aid extended by the United States, first under interim aid, and later under the Marshall Plan, there would have been no possibility whatever that France at the present time would be in a position other than that of a country essentially bankrupt.

RESTRICTED

2133

In that connection I would like to make one other observation; this is more on the political side. I don't think there is any observer, whether French or foreign, who does not feel that had not this aid been given there would have been political chaos in the country which would have resulted in Communist domination. That threat has not only been arrested, but the influence of the Communists is very much on the decline. In October of 1948 they dominated and inspired a coal strike. The coal mines of France are nationalized; so this in effect was a strike against the French Government. It was presumably for higher wages, but they quickly dropped any demand for higher wages and placed the strike definitely on political grounds.

So far as I know, this was the first time in the history of any European country--and it has never happened in our own country--when during a coal strike the largest miners' union actually instructed its safety crews to abandon the mines. Had that strike continued, there is no question whatever that the largest single asset in the way of nationalized industry in all of France would have been almost irreparably ruined or at least put out of commission for six months or longer. There was a great deal of damage done, but there was no bloodshed. That strike was terminated by the complete failure of the Communists in the political field to achieve their objectives. And that was, so far as the Communists were concerned, the greatest check they have met with since the war in any European country.

The results of the strike from an economic standpoint--and here it has affected very much the Marshall Plan--were devastating. France lost six million tons of coal or roughly 120 million dollars worth of products at American prices. The French dug into their stocks of coal to the extent of about three million tons. The government lost during the strike about 25 billion francs of revenue. There were other losses of a very large consequence which made the total cost of the strike over 300 million dollars or roughly almost a quarter of the entire aid which had been programmed for the whole year under the Marshall Plan. It was a serious thing, but in the political and in the morale field, so to speak, it was a healthy thing, because there is no fear at the present time of Communism in industry because of the fear of sporadic sabotage, as regards the retardation of industrial and agricultural production in France.

Now, one more word on the political side about certain aspects which affect the Marshall Plan program. The political situation is obviously very baffling. One becomes confused, to say the least, about the frequent cabinet changes. But there is one characteristic of them which is not true of our own political setup here or of that of England. Although the Premier may change and the faces may change in the cabinet, there are a great many of the old professionals who carry on. They may shift from one position to another; they may pop up in some other place in succeeding cabinets. There are a great many of the higher civil servants who stay on. We have in fact a formal basis of contact and a continuity which in the economic field is

RESTRICTED

things workable in spite of the frequent cabinet changes, demoralizing though they are.

This latest cabinet has been in power to date a little longer than any recent cabinet in France. There is a fair likelihood that with things going well it can preserve itself in power for some time to come. It has been extremely courageous about its program. The members of this cabinet and the members in general of the government, including the executive and legislative branches, are among the people who really and sincerely express a desire to carry through on their four-year program. If they do it, I think we will have been fully justified in every respect, whether economic, whether social, whether political, or whether strategic, in having given this support to France.

I have rambled around quite a bit this morning. I don't know that there is any more that I can conceive of that might be useful to add. If it is agreeable to you, General, I think it would be better now for me to try to respond to any questions that anyone desires to ask.

QUESTION: Mr. Ambassador, do you attribute the high mortality rate of the French cabinet primarily to French political institutions, to the French temperament, or to the precarious balance of the French economy in modern times?

MR. BRUCE: I would ascribe it more largely to political institutions, particularly the new French constitution. The French constitution is rather curious. There is no way under that constitution whereby Parliament can be dissolved except under the most unlikely circumstances. A cabinet has to fall on a vote of censure or a vote of no confidence before the results of that fall become cumulative in regard to the dissolution of Parliament. You have to have two cabinet falls of that character before Parliament can be dissolved. Otherwise, although cabinets come and go, the members of the National Assembly remain in office.

Prior to this new constitution they had a bicameral legislature in France, consisting of a House of Deputies and a Senate. The Senate has been replaced by the Council of the Republic, which has no real power in the sense that our Senate enjoys power. It can block legislation, it can hinder and delay, and it can give advice; but the dominating factor in the French parliamentary system is what used to be the old Chamber of Deputies, now the National Assembly. The nomination of the head of the cabinet, the Prime Minister, although he is appointed by the President of the Republic—who, again, occupies no position of real authority in the sense that our President does—has to be ratified by the National Assembly.

The second difficulty is that, with the multiplicity of French parties, and with the very marked divergence in political principles

RESTRICTED

2220

between these various parties, the Prime Minister has to bring into his cabinet men who are not necessarily loyal either to him or to his party, in order to get a sufficient combination of votes in the National Assembly to carry through any program.

The present cabinet, like the preceding coalition cabinet, depends for its parliamentary strength very largely on three parties: the Socialists, the MRP or the so-called official Catholic party; and the Radical Socialists. They also must have a large number of votes from the independents or from members far to the right or far to the left in addition to the votes of the central coalition.

In the National Assembly there are 621 seats. Of those 167 are held by the Communists, and 13 more members always vote for the Communist Party. There is no such thing among the Communists as not being present at a roll call, and they always vote. The government starts out with 180 votes against it on any issue whatever. So to remain in power you have to be continually bickering to get the support of one or another party of which the principal range, in relation even to the three principal parties, over a field that varies from the most rock-ribbed Republican down to the most Liberal Democrat. That is quite a combination to handle, but that is the combination that must be handled if the cabinet is going to remain in power.

The economic aspect, of course, has an influence. If things are going badly economically, if the farmers don't think that enough is being paid for their grain, the cabinet is in trouble. As I said, about 50 per cent of the population are directly or indirectly dependent on agriculture for their livelihood. So the farmers, whenever they can make their forces cohesive, can wield the greatest influence of any group of people in France; they have to be considered in connection with almost any measure that is brought before Parliament or that the cabinet has under consideration.

QUESTION: As I understand the question of intra-European trade, France is manufacturing and wants to sell quite a large amount of certain luxury goods to Great Britain but Sir Stafford Cripps doesn't want to take them. I would like to hear your opinion on that.

MR. BRUCE: That difference of opinion between France and Great Britain on the subject of exports of luxury goods and the imports in turn by the recipient country is one which I think is significant of a cleavage of opinion in regard to intra-European trade at the present time. Great Britain, as you know, is conserving so far as possible its resources by limiting imports to necessities. The French, because of the traditional nature of their economy, would like to force Great Britain, Belgium, and the other European participating countries to take some of its luxury items in larger volume than they are now being taken.

RESTRICTED

The British thesis, as I understand it, is that if Great Britain is to accomplish its objective and render itself free of extraordinary outside assistance in the year 1952, the British cannot afford the luxury of buying nonessential items; Great Britain at the present time is a large creditor in relation to France. The French attitude is that if they can restore in a considerable measure the prewar pattern of trade, which included the shipment of luxury items from one country freely to another without any restriction on imports, they will in the long run restore the European economy more quickly than they will by bilateral agreements. I think both the British and French are agreed on the principle of the virtue of the eventual multilateralization of trade. At the present time it is proceeding on a bilateral basis. The French are extremely anxious to have the British program greater amounts of luxury goods. The British are standing firm against that program with regard to luxury importation and are restricting their importations almost entirely to necessity items.

The British and the French have been discussing the importation by Great Britain from France of a considerable amount of foodstuffs--especially wheat, meat, butter, and cheese. The British take the attitude--and it seems to me quite a rational one--that they must be assured of the performance by the French of any export goal the British agree to in the way of imports. If the British agree to import, which is under consideration at the present time, from France 110,000 tons of wheat, the British must be assured that those 110,000 tons of wheat are going to be forthcoming from France regardless of the extent of the crop that the French may harvest during this coming year. In other words, the French might have to subject themselves to some kind of austerity regime in order to make good on their engagement.

Now, one reason for this--typical, of course, of a great many of these bilateral agreements--is that, if the British accept from France the importation of wheat, that means the British will have to cancel arrangements which have existed over a considerable period for them to import an equivalent amount of wheat from other countries. That means new arrangements in British imports and also in British export trade.

Whether the French can or cannot perform with regard to every item I don't know. They have every intention of doing so once these agreements are accepted. But one difficulty remains. Will the countries of Europe such as Belgium and England, which are the largest contributors to the intra-European payments scheme, make payments available to debtor countries and be willing to accept a greater amount of luxury imports than they have to date?

I will give you one example of what the importance of this is to a particular country--France. Prior to the war, Germany took about 10 million dollars worth of French wines and liquors a year. The Bizonal program of importation is 200 thousand dollars of wines and liquors for the coming year. Now, that from a foreign exchange standpoint represents a loss to

RESTRICTED

2295

France of the difference between these two amounts, or 9.8 million dollars. The French would like the Germans again to take 10 million dollars worth, or at least a sum approaching that, which represents the average of the take before the war. Their argument is that by the restoration of that type of trade which existed prior to the war, they will in the long run arrive at multilateralization and a balance of trade between the European countries.

I might say in connection with the Bizone that it is impractical, because of the reduced purchasing power of the German people, for them to import or to absorb that amount of wines and liquors.

QUESTION: Mr. Ambassador, would you discuss the prospects of the French military budget in the next few years and the degree to which France would be expected to contribute to its own rearmament?

MR. BRUCE: The French military budget for this year was set at 350 billion francs, which is over 1.1 billion dollars. A so-called law of maxima was passed by the French Parliament which sets a ceiling on the expenses of the government departments and agencies; and this amount of 350 billion francs was the maximum set for the whole military establishment.

In contrast to what is being done with the other departments in France, the military appropriations this year have been made first of all on a quarterly basis and are now proceeding on a monthly basis. The French cabinet, in order to carry out its engagements not only in regard to the Marshall Plan but its general engagements to the French Republic, is expected to enforce the ceiling on the military budget of the 350 billion francs of which I have spoken. However, the expenses of the war in Indo-China for the present year, where there are about 110,000 French troops, are such that, unless there is a curtailment within the military establishment of a very large amount, the French will be unable to carry out the program which they are now in the course of pursuing in Indo-China. For the realization of that, they need almost immediately another 47 billion francs. They expect to raise 17 billion francs in Indo-China itself, but they will have to get the other 30 billion somewhere else.

That will precipitate a fight in the French cabinet which is going to be a very major political controversy. The only way that they can accomplish the maintenance of this ever-all ceiling on the military budget will be to favor the ground forces and cut the appropriation for aviation and for the navy. If they do that, I don't need to tell you gentlemen on what very tender ground they tread.

Let me carry this a little further in response to your question. Can they make the contribution which they will probably be called upon to make in connection with MAP? As you know, for the latter half of this year

RESTRICTED

the first half of our own fiscal year, the amount that France may be asked to provide is not of such consequence that it cannot be covered within the terms of what we are going to ask all the countries to do--to increase their military appropriations without resorting to inflationary financing. It is perfectly possible for France to do that provided the ceiling on the present military establishment is not raised.

Now, as regards 1950, if the budgetary receipts go along more or less the way they are going now, if there is no increased expenditure beyond the ceiling limit, there is no reason why by 1950, again without resorting to inflationary financing, the French cannot play their full part in relation to building up and increasing their military potential along the lines that they may be asked to do.

QUESTION: Could you discuss the French attitude on some of the German problems on the economic side? Specifically, what is your opinion on the statement sometimes made that the French view of the necessity for control of the Ruhr production is not based essentially on security considerations but on a desire to limit possible competition from German manufacturers and exporters? Are there any other aspects of the French attitude toward Germany that you may want to cover?

MR. BRUCE: You will have no talking all day. On the strictly industrial side I think there is something in the contention that the French, as well as the Luxemburgers and the Belgians, view the reduction of German industrial production as an opportunity for them to expand their own industrial production and capture some of the former German markets.

In the month of March the French produced more steel than they ever produced in their whole history. Their goal in steel production this year is a very elevated one.

The French have their iron ore in considerable quantity. Traditionally they have been exporters of iron ore, especially from Lorraine. But they are going to conserve most of that iron ore for the increases which they expect to reach in their own production of steel. But on the other hand, they are depending on the Ruhr for the coal and particularly for the metallurgical coke they need in order to get that steel production. So for many reasons of which one is the desire to take to themselves--and, as I say, the same thing applies to some of the other nations, especially the Luxemburgers and the Belgians--some of the steel production that has been lopped off the German prewar level; and, two, the desire to assure for themselves a supply of the raw materials that they need not only for steel making, but in other parts of their economy. The French want to exercise a tighter control, especially over the Ruhr, than do the other great nations which are interested in that part of the world.

RESTRICTED

2231

To further complicate the situation there happens to be a desire on the part of the French people which, coupled with their age-long antipathy their dread and fear of the Germans, runs along the same path as the Communist propaganda. That is the only instance that I know of where Communist propaganda is practically identical with the feelings of the majority of the French people. And the Communists play on it, not because they care whether the French production of steel, chemicals, or anything else is greater than that of Germany, but because it gives them an opportunity to attack what they allege to be the desire of the United States especially to build up a strong Germany. That propaganda has in turn been extremely effective among masses of the French people in exacerbating their feeling about the revival of the German economy. So I would say that the attitude of which you speak is selfish from the standpoint of the industrialists, who see a great hope of expanding their own export markets in the future; but also that it is more deeply rooted in traditional French mistrust of Germany than it is in any other single source.

GENERAL VANANTAN: Mr. Bruce, for both colleges I want to thank you very much for a most enlightening discussion. In your new and important duties you have the best wishes of both colleges. We wish you Godspeed.

(24 May 1949--450)S/mng.

RESTRICTED