

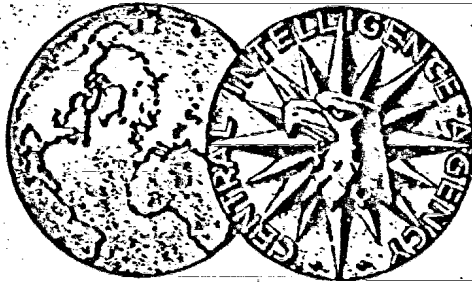
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POSTWAR INDUSTRIAL RECOVERY IN FRANCE

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POSTWAR INDUSTRIAL RECOVERY IN FRANCE

SUMMARY

The basis for French economic planning since 1946 has been the Monnet Plan, designed to modernize and expand existing industrial and agricultural equipment and to raise industrial output by 1950 to a point 60 percent above the 1938 level. The plan emphasized the production of capital goods, deferring any attempt to satisfy fully the demands for consumers' goods until the basic industrial goals had been attained.

By the end of 1947, however, attainment of the original annual goals was beginning to fall dangerously in arrears because of a combination of factors seriously aggravated by inflation. A new Government, realizing that the investment program, the heart of the plan, had not only been too ambitious but was also impossible of realization in a period of monetary instability, reduced the investment goals and put through a series of bold anti-inflationary measures.

By April 1948, largely as a result of these measures the inflation, although not solved, was temporarily halted, and industrial production had reached the level of 117 percent of 1938. An outstanding achievement was the breaking of the coal bottleneck, which in turn has permitted a rapid increase in steel production. Production in the other industries considered basic to France's plan for industrial recovery has likewise increased.

The ECA, meanwhile, by assuring a steadily increasing volume of goods available in France and by improving the Government's budgetary position, will help solve France's basic problem of inflation. The Government will have difficulty in stabilizing prices and wages during critical pre-harvest months, but its chances for ultimate success are enhanced by increasing domestic industrial output and the prospects of a bumper crop.

Aside from this immediate task, however, the Government will continue to be faced with the problems of harmonizing its various modernization and expansion programs, of improving standards of living without allowing consumption expenditure to expand too rapidly, and of increasing exports, all with its still limited resources.

Note: The information in this report is as of 23 June 1948.
The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report.

POSTWAR INDUSTRIAL RECOVERY IN FRANCE

The basis for French economic planning since 1946 has been the Monnet Plan, designed to replace capital equipment consumed during the depression of the 1930's, the war, and the occupation of the early 40's, and to modernize and expand the existing industrial and agricultural equipment. The plan contemplated the achievement by 1950 of an over-all level of industrial output 60 percent above that of 1938, or 25 percent above that of 1929, the peak year of French industrial production.

The general objectives were derived from the annual goals set up for the years 1947 through 1950 for the six basic industries: coal, power, steel, cement, agricultural machinery, and transport. Production goals for other industries and for agriculture were outlined with less detail, being primarily designed to indicate the relative rate of growth desired so that allocations of scarce materials, manpower, and foreign exchange could be made with the optimum effect on the whole economy.

The plan placed the emphasis on production of capital goods in order to permit modernization and reconstruction of the French economy while reducing dependence on foreign supplies of capital equipment. Not until after the attainment of these goals would it have been possible to attempt to satisfy fully the demand for consumers' goods. Furthermore, because prewar agricultural production was fairly adequate, an increase of only 15 percent over 1938 in output by 1950 was deemed necessary—this increase to be effected mainly through expanded use of agricultural machinery.

The Monnet Plan targets for 1947, however, proved to be more ambitious than could be realized within the original timetable. Production did not recover to 1938 levels until mid-1947 though originally it had been expected that these would be attained by the end of 1946. The crop failure of 1947 and the resultant depletion of the French food supply; the acceleration of inflationary pressures with their adverse effects upon labor and the whole economy; unexpected shortages of power caused by the drought; continued coal shortages and consequent restriction of steel production; the critical foreign exchange position; and the November-December strikes; all widened the gap by which France missed the target.

The investment program, the real heart of the Monnet Plan, had been deemed both necessary and sufficient to increase the productivity of labor in order to achieve the planned levels of output, simultaneously reducing production costs so that French products could compete in both the domestic and world markets. The plan had originally called for a rate of total investment (including housing) in 1947 equal to approximately 20 percent of the total annual national income. This is an extremely high rate at any time, but especially so when national income and consumption are depressed. The so-called "Balance-Sheet Commission", headed by Jean Monnet, originator of the plan, realized from the experience of the year that as long as monetary stabilization was not a fact, it was futile to count on voluntary savings to provide adequate funds for the investment program. Although no general re-issuing of the Plan or adjustment of the individual industrial goals have been made, the entire recon-

struction and investment expenditure goals underwent intensive screening at the end of 1947. Reconstruction goals have been reduced by 11 percent compared to 1947, and the various investment programs have been cut by 22 to 40 percent. Without attempting to predict the industrial increase that would be realized in specific sectors in 1948, it was estimated both in France and the US that French industrial production would rise during the year to a general level of 10 percent above the 1938 figure. The French Balance-Sheet Commission arrived at roughly the same conclusions. It appeared, furthermore, that instead of attaining a level 60 percent higher by 1950, industrial output would probably not rise higher than 40 percent by 1952.

Without US Interim Aid during the past fall and winter and without the current ECA allocations, economic recovery in France would have been even more seriously retarded. Even with US funds, however, little improvement in the general economic situation could have been accomplished without the series of strong anti-inflationary measures undertaken by the Schuman Government, after it came to power in November 1947. In March 1948, for the first time in ten months, prices did not rise but declined slightly. Although these measures have not eliminated all basic causes of inflation, the present government had, all in all, courageously tackled the fundamental problem pointed out by Monnet's group—namely, the excess of total demand on the part of the State, business, and consumers for the available resources at existing prices.

During the first few months of 1948, owing in large part to an absence of labor strife and to an uncommonly mild winter, production in the six industries considered basic to the Monnet Plan began to show a significant increase. Domestic coal production at the end of April stood at a rate surpassing the original goal for 1948. The coal bottleneck has been broken; increasing home production and availability of foreign coal (US and Ruhr) have permitted an increased allotment to the steel industry. This boost to steel producers was an important factor in the rise of the over-all industrial production level in April to 117 percent of 1938—or already 7 percent higher than the revised Monnet Plan estimate for 1948. The present rate of steel production is 7.7 million tons (crude steel) annually, and the rate may reach 8.5 million by autumn. The shortage of coke, which exists despite the generally satisfactory coal situation, however, will along with other factors, prevent the attainment of the original Monnet Plan goal of 9 million tons for 1948. Goals for the production of hydroelectric power are currently being met at a rate approximately 55 percent above the 1938 level. Total freight ton-kilometers performed by the French railways in 1947 were estimated to be 44,000 millions. This was 25 percent higher than the figure for 1937. The French estimate, which may be somewhat over-optimistic, is that the 1948 figure will be 17 percent higher than that of 1947. In any case, more and more freight is being moved by truck and the inland canal system is functioning satisfactorily. Although there may be difficulties in the next few months when the transportation system will have to carry the burden of the expected good harvest, there probably will be no transportation bottleneck.

The production of cement in 1947 rose well above the 1938 level, but owing in part to the strikes of November-December the level reached was only 3.8 million tons

as against a goal of 6 million. In March 1948, cement was being produced at a rate of 5 million tons annually. Whether the original Monnet Plan target of 8 million tons in 1948 will be reached depends largely on how much steel and coal can be allocated to this industry.

The production of *agricultural machinery*, the sixth "basic industry", fell miserably short of the goal in 1947. Only some 5,000 agricultural tractors were produced, for example, as against an objective of over 12,000. In January 1948, however, production was already approaching an annual rate of 10,000. Realizing the importance of making France relatively self-sufficient in food production as soon as possible, the Government is making the allocation of steel to this industry a matter of priority.

The \$375 million program, which is France's share of ECA for the period April-July 1948, has already enabled the Government to raise the bread ration, thereby increasing the present urban French diet by 150 calories daily. After the wheat harvest, it is probable that the ration will be further increased. Although total dollar imports show a current decrease from the 1947 level in some particular fields (for instance, vehicles and metals, where French production increased or requirements decreased) it is now estimated that the program will allow France sufficient coal and raw materials at least to maintain its present industrial level of 117 percent of 1938 (already 11 percent higher than the peak attained in 1947). Consumption of coal, steel, and cotton fabric will increase over that of 1947 by 15 percent, 30 percent, and 19 percent respectively. The ECA program will be the major element in financing a dollar deficit only a little smaller than that which existed in 1947. Over half the April-July 1948 dollar payments of \$651 million will be financed by ECA aid. Normal current French dollar receipts will finance \$120 million, or only 1/5 of the dollar payments. The remaining dollar deficit will be financed by existing French gold and dollars reserves, and dollar credits from ECA.

The ECA, therefore, by increasing the quantity of goods available in France and by improving the Government's budgetary position, will help solve France's basic problem of inflation. Increasing domestic French industrial output and the prospects of a good harvest enhance the chances for ultimate success provided the Government succeeds in holding prices back during the critical pre-harvest months.

Aside from this immediate task, however, the Government will continue to be faced with the problems of harmonizing its concurrent aims of industrial modernization and expansion, of improving standards of living, and of increasing exports all with its still limited resources.

If renewed inflationary price rises are to be prevented, consumption expenditure cannot be permitted to expand rapidly. Current expenditures of the State, furthermore, should not encroach upon the Monnet Plan's requirements for investment of government revenue and private savings; on the contrary, a surplus in the ordinary budget will have to be effected as soon as practicable. The entire investment and modernization programs must continually be screened to assure both their essentiality and the rapidity with which they yield an increased flow of goods and services.

Private credit and savings must continue to be placed at the service of the national investment program. This program, to be successful, will have to be limited to those sums which can be raised through private savings, the possible surplus in the ordinary budget, and that portion of local currency—as yet not determined—which will be set aside as counterpart of ECA assistance.