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STUDY OF EXTENSION OF US AID
TO FRANCE

(for submission to
the SWGCC Special Ad Hoc Committee)

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~~TOP SECRET~~**CONFIDENTIAL**I. ANALYSIS OF THE SITUATIONA. Basic Forces

France is in danger of failing to be the strong, ^{independent} ~~democratic~~ and friendly power which accords with US interests and the desires of most Frenchmen. The danger to France and US interests lies in the immediate future, not three or four years off. It is not a matter of the Communist Party, which is already the largest in France, emerging with a majority at the next parliamentary elections; the elections are now scheduled for 1951 and cannot be held before mid-1948. The danger lies in the possibility that the attitude of the French people toward their present middle-of-the-road leaders, policies, and institutions will turn from one of fitful pessimism to one of general antipathy and so offer little resistance to totalitarian thrusts from either the Communists or such rightist elements as may rally around de Gaulle.

1409 If that is the outcome of present efforts to meet France's economic difficulties, the most likely beneficiary will be the violently anti-American French Communist Party. At present, despite the fact that the Communists

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are in the opposition and are making the government's task more difficult by backing widespread wildcat strikes, their immediate aim is not chaos but their own return to the Government with increased powers. That eventuality would orient French policy away from the US and toward the USSR, it would not mean a change of French political institutions from democratic to totalitarian. But France's economic difficulties may mount to the point where a mere cabinet reorganization cannot carry conviction of bringing a solution, or the Right may try forcibly to prevent the Communists' return to the Government. In a situation of administrative collapse or civil strife, the Communists' carefully built up control of key trade-unions, infiltration of the civil administration, police, and armed forces, and possession of military formations of their own would give them an initial advantage in the struggle for power.

The present year, and even the next months, constitute a critical period. If the present Government can effect some immediate economic improvements and present the country with hope for the future, it should become progressively stronger. Then the orientation of the French people toward the US, not only by immediate economic need but also by tradition and present

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ideological considerations, should have its full effect.

1. The Economic Situation. The root cause of France's unstable situation can be found in economic conditions and popular dissatisfaction with them. The principal characteristics of the economic picture are a standard of living still significantly below prewar levels, inflation, and a slowing down of the rate of recovery of industrial production. The French realize that they are badly off and that the available goods and services are badly distributed; of still greater importance, they feel that there is little chance of economic betterment in the near future under existing institutions ^{conditions} and leadership.

A good part of the cause of France's economic plight is beyond its control. France must import coal, food, fertilizer, and machinery, but these are in short world supply. The first three are subject to international allocation, so that France's needs can be met only if the amounts available to others are reduced. Most orders for machinery must ^{accumulated and current} compete with the ~~back-~~ ~~up~~ US and world demand. The general impoverishment of Europe makes the export of nonessential French items difficult and obliges France to purchase its essential requirements from the US (paid for in large part by ^{dollar} credits).

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and therefore at greater cost than would be the case if Europe were able to supply these goods as in the past.

The fact that France was defeated and occupied before it had a chance to recover from the depression of the thirties, and the current political instability, notably the lack of public respect for governmental authority and of confidence in the competence and good faith of officials, are further reasons for the unsatisfactory state of the French economy.

a. The Standard of living. Current consumption is roughly the same as in 1946, when the average rate of consumption was probably 75 to 80 percent of 1938 -- a depression year. But the level of consumption of the urban wage earner ranges only from 60 to at most 70 percent of 1938. Farmers and many traders, including those operating illegally on the black market, probably maintain rates of consumption equal to or greater than those of prewar years.

The general standard of living is lower than is indicated by the above data on consumption. After five years of war and occupation, which were preceded by the long depression of the thirties and followed by only a modest recovery in 1946, the consumer's stock of durable and semi-durable

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goods has rapidly dwindled. Housing has been destroyed and damaged and is in a poor state of repair. Clothing, kitchen utensils, and the like have been used up at a much faster rate than they were replaced.

The urban French have been hard hit in their diet -- the single most important sign to a Frenchman of his state of well-being. Per capita urban food consumption, for example, has dropped from a daily caloric intake of 2650 before the war to 2250 today, and many working-class families receive less. There has also been a considerable reduction in the quality of the diet. The responsible factors include: (1) food production has been held below prewar levels by wartime losses, the need of demining, lack of fertilizer, shortage and depreciation of agricultural machinery, and adverse weather conditions in the winter of 1946-47; (2) food distribution has been inequitable as peasants have retained a larger share of their output, diverted some of their produce to the black market, or withheld it in expectation of higher prices later on; and (3) imports have been restricted by the needs of other countries at a time of world shortages.

b. Inflation. The inflation is primarily a function of the Government's budgetary deficits, financed through large monthly advances from the bank of France at a time when the factors of production are fully employed; of the restricted volume of goods and services available; and of expectations of continued price rises. It results in a decrease in total economic output since it places a premium on non-productive trading, the production of less

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essential commodities, and speculative hoarding. It also places a disproportionate share of the economic burden on the fixed income groups and the wage earners.

c. Industrial production. French industrial production, which made a steady recovery from the low level prevailing during the four years of occupation and the depths to which it fell at the time of liberation, reached a peak of roughly 90-95 percent of 1938 in October 1946, subsequently dropped to roughly 85 percent, but now shows signs of improvement. (It should be noted again that 1938 was a depression year in France.)

The most important economic factor determining the general course of French industrial production in 1946 was the availability of energy, primarily coal. The world shortage of coal has restricted French imports below what they were before the war and has caused France to use coal of lower than prewar quality, so that for the same economic results the tonnage requirements are greater than before the war. The fact that French coal production has stood at over 100 percent of 1938 since the beginning of 1946 has been unable to make up the difference caused by lower British and German production, and no great additional production increase in France

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can be expected.

In 1947 the shortage of coal still limits the level that industrial output might attain, but other restrictive factors are becoming increasingly important. The margin of unused plant capacity has narrowed. The inflation is interfering with production by making it profitable to accumulate inventories all along the line in anticipation of higher prices and by reducing the incentive for productive work. Further production increases have more and more to be based on increased efficiency of both management and labor.

d. The Monnet Plan. The Monnet Plan, officially adopted by the French Government early in 1947, was designed primarily to increase and modernize France's industrial plant and equipment in the years 1947-50 in order to raise the productivity of the country. Only by such increased productivity can France expect to achieve and maintain a high standard of living.

The program calls for a rate of gross capital formation in 1947 equal to approximately 20 percent of the total amount of goods and services estimated to be available during the year. This is an extremely high rate

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at any time. It is especially so when national income and consumption are depressed. Primarily for this reason, the investment program is not being and cannot be implemented in full this year. Although estimates vary, it is likely that the actual rate of gross capital formation in France in 1947 will not be more than \$3.7 billion (in 1946 prices), as opposed to the \$5.7 billion originally planned.

e. Foreign trade. In addition to its import difficulties, France, with low domestic production and relatively high consumption needs at home, has little available for export. This problem has been met by drawing on its credit and capital. In 1946 France was able to pay for less than half of its imports out of current earnings. Foreign credits, principally from the US, and liquidation of France's gold and foreign exchange reserves have paid in roughly equal parts for the other half. It is expected that the balance-of-payments disequilibrium will continue for several years, thereby draining France's reserves and forcing it to attempt to obtain new foreign credits in order to maintain a modest standard of living.

2. Political Disillusions and Dissensions. The French have been grievously disappointed in their hopes that a political "brave new world" would follow liberation and victory. Humiliated and angered by defeat and occupation, they started the new era with zeal for purging the institutions, politicians, and political practices that had, they felt, led to the collapse of the Third Republic. Resistance had brought a new spirit of unity; the

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"first minister of France" was the chief of state; and the "charter"

of the National Council of Resistance provided a program of reforms.

In the referendum of October 1945, 96 percent of the voters called for a new constitution.

But the new constitution of October 1946 came remarkably close to the provisions of that of 1875. It was approved by only 36 percent of the registered voters, with 33 percent voting against and 31 percent abstaining. By that time many Frenchmen had become disillusioned because the parties were as divided and as selfish as before the war, though the number of parties and the distribution of their strength in parliament made coalition governments inevitable and because old-style scandals tainted political leaders. The center and Right became disturbed because the Constitution makes the National Assembly -- which cannot be dissolved before mid-1948 -- strong relative to the executive and because the electoral law makes any radical change in the strength of the political parties extremely difficult and even tends to perpetuate the same party leaders in office. The Fourth Republic had no sooner begun than the discontented, instigated by General de Gaulle, were at work in an attempt to revise the balance of its fundamental institutions.

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French Governments have therefore found it difficult to get popular support even when they were in no danger of being overthrown by the National Assembly. Government decrees have not brought prices down, and government appeals have not brought food to market or an end to wage demands. The parts have not been ready to make immediate sacrifices for the ultimate good of the whole, largely because they have not had confidence in the disinterestedness of their leaders.

3. Apprehension over World Tensions. French morale is further lowered by the acute national fear of a third World War and the realization that France can do so little to prevent it. The French are not adjusted to being a great power in name only and to having the fate of Europe in the hands of extra-European super-powers. Their fear both attracts them toward, and repels them from, the US. On the one hand, the great majority prefer democracy to totalitarianism, the US to the USSR. On the other, they are apprehensive over the Truman Doctrine, not so much because specific political strings might be attached to US aid, but because its direct challenge to the Soviet Union appears to force aid recipients to choose their side in a potential world conflict. They have been correspondingly reassured by Secretary

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Marshall's Harvard speech, which seems to them to encourage Europe to draw together again.

Coupled with this fear of war between the US and the USSR is an almost universal fear of Germany. The French are obsessed with the belief that the Big Three, unable to settle the East-West rivalry, are building Germany up and will eventually enable the Germans to play East against West for their own benefit and with inevitable disaster for France. Only after the 1947 Moscow Conference does there seem to have been any realization in France that US policy gives real consideration -- and more than that of the Soviet Union -- to the security needs of France.

Finally, the average Frenchman is bewildered and resentful over the inability of reform programs to satisfy the rising colonial nationalisms in the French Empire. Here again there is a tendency to lay part of the blame on the United States, whose policy many Frenchmen regard as compounded of political anti-colonialism and economic imperialism, both directed toward loosening France's hold on its overseas possessions.

4. French Communist Strength. These economic dissatisfactions, political disillusionments, and worries over world tensions and US policies all

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play directly into the hands of the extremely powerful French Communist Party. It is already the largest in the Assembly, has over a million party members, and in the November 1946 election polled 5,500,000 votes (28.5 percent of the total), the largest of any party and the largest in its history. This preeminent position the Communists held by reason of:

- (1) their patriotic record during occupation and since liberation;
- (2) their position on the extreme left of the political spectrum, where they catch the protest vote against administrative inefficiency or economic inequities;
- (3) their unceasing and well-designed appeals to particular groups, including the farmers;
- (4) possession of a cynical propaganda machine, first-rate in polemical quality, nation-wide in scope, and including two of the four newspapers with the highest circulation in France;
- (5) access to unlimited funds;
- (6) their drive and efficiency, which has given the impression that they at least could get things done;
- (7) the offer of hope for a better future to which they alone among the parties seem able to give authentic ring; and
- (8) the "band wagon" urge of Frenchmen who see Communism as the "wave of the future."

In a crisis, however, the strength of the Communists would lie less in being "the first party of France" than in their possession of:

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(1) Demination of the major trade-union organization (the CGT) and control of important component unions;

(2) Infiltration by trusted Communists into the highly centralized French administration, principally in those ministries which have been headed by Communist ministers; Industrial Production, Armaments (which controls the State arsenals), Air, Reconstruction, Labor, Veterans, and Public Health;

(3) Infiltration of undetermined but differing degrees into the Army, Air Force, (notably ground force personnel at the airfields), Gendarmerie, and Municipal Police Forces (including that of Paris); and

(4) Command of clandestine armed forces of undetermined strength, well organized around the battle-ried nucleus of the Communist underground (the FTP), and of reactivated international units dating from the Spanish Civil War.

While there is some doubt as to the Communists' ability to seize power, and much more as to their ability to retain it after a successful coup d'état, no one questions that they could for a time totally disrupt the life of France.

The apparent unreadiness of the Soviet Union to support the French

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Communists if they became engaged in civil strife has encouraged them, up to very recently at least, to follow an outwardly constructive, patriotic line. The Communist Party has aimed at respectability as a political party like the others, has preferred being in the government to being in the opposition, has been instrumental in raising coal production to new heights and until recently prevented strikes by the long-discontented workers. At the same time, Communist ministers have influenced French Foreign policy along lines favorable to the Soviet Union, and the Communist press, while constantly praising the USSR as France's best friend, has lost no opportunity to misrepresent and vilify US foreign policy and conditions in the US.

5. The Shadow of De Gaulle. In opposition to the present government, to the present functioning of the institutions of the Fourth Republic, but even more to the Communists and all their works is General de Gaulle. He expects that the economic crisis will prove too much for the ordinary run of politicians and that he will once more be called upon by the people to save France. To prepare the road he has founded and accepted the leadership of the RPF (Rassemblement du Peuple Français), an extra-parliamentary

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movement whose existence has so far served chiefly as an influence on the Government parties "to adopt Gaullist policies for fear of having to adopt the General himself."

So far, De Gaulle's ideas and movement have attracted followers largely from the parliamentary and extra-Parliamentary Right and Right Center, which have been in hopeless opposition to the post-Gaullist governments and have lacked any leader of stature. The Left does not trust him; the Communists and most Socialists believe that he would not merely strengthen the executive but turn the Republic into a dictatorship. For that reason, a move to bring De Gaulle to power would invite a Communist-led general strike and perhaps civil war.

B. Present Position of the Ramadier Government

The Ramadier Government faces a grave but not hopeless situation. The bread ration was cut on May 1 and its maintenance even at present levels until the new crop is available is problematic; meat is prohibitively expensive, and the wine ration a month in arrears. With prices still rising, mounting worker discontent has brought defiance of the Government in a series of wildcat strikes that shows few signs of abating. These strikes

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now have the support of the Communist Party, which, having gone into opposition on the wage issue, is attempting to show that it is impossible to govern France without the "working classes," still less against them. The Communists are also plugging for abandonment of the economic controls which the Government officially favors but which the Radical Socialists, though still in the Government, have long opposed. In the face of such challenges, and insecure in control of his own party, the Socialist Premier has had to make concessions in the form of disguised wage increases and relaxed controls that may critically aggravate the national economic crisis in the near future.

Nevertheless, if Ramadier can survive the next two months, the French political picture may gradually brighten. By August the new wheat crop will be in, more German coal should be available to France primarily through increased US exports, and Parliament should be in recess. The Communists are unlikely to use the weapon of a general strike merely to overthrow the Ramadier Government, reserving that rather as a weapon against De Gaulle. The Radical Socialists are, in the last resort, unlikely to upset the Government for fear of a crisis that would bring the Communists back into the cabinet. Secretary Marshall's Harvard speech

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has given the French hope that the US means to aid them if they are constructive Europeans, and not merely to use them to battle Communism. Renauldier has already revived French confidence somewhat by the relative vigor with which he has attacked his problems. If he weathers the immediate crisis, his very success will attract support that will make the uphill road ahead somewhat easier.

C. Objectives and Methods of Other Great Powers

1. Great Britain. The British desire a strong, friendly, and democratic France. This desire includes all political groups in Britain. Not only those who desire close teamwork between Britain and the US, but even more those who, like Churchill, advocate a United States of Europe, or who, like the Labor backbenchers of the Crossman school, want Britain to stand between the US and the USSR, require a strong and friendly France for the success of their policies.

Implementation of this desire has been on the whole disappointing. Postwar fatigue and preoccupation with their own troubles have led the British to focus their attention on the United States and Russia at the expense of Franco-British relations. The impact of British Socialism has been barely

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felt in France, where it could have done much to bolster the badly divided Socialists, and the British have made no real effort to compose their dangerously profound differences with France over the German settlement.

The credit side, however, is far from negligible and includes the following:

Great Britain and France are bound by the fifty-year alliance of March 4, 1947 to prevent the emergence of an aggressive Germany and to promote reciprocal economic cooperation. Britain, which is a creditor of France both for past indebtedness and on current account -- though on nowhere like the scale of the US -- made an agreement late in 1946 permitting the initial post-ponement and gradual liquidation of this debt. The British have tried to remove French suspicions that they are trying to build up Germany to a dangerous extent and at Moscow joined the US in pledging an increase in coal deliveries from the bizonal area in proportion as German coal production rose. The British have supplied some military equipment to the French armed forces and have invited French outfits to certain British military schools.

2. The USSR. The twofold objective of Soviet policy has been to neutralize France as a factor in any political or economic grouping or

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association of Western European nations through the French Communist Party and to prepare a structure of government for use if the Kremlin should take direct control of Western Europe.

Moscow regards France as the most important potential outpost of Soviet power in Western Europe. Whenever possible the USSR strives both directly and indirectly to make itself regarded as France's truest foreign friend. The Soviet Government consistently gave slightly more generous forms of recognition to General de Gaulle before the liberation of France than did the US and Great Britain; it was the first government to conclude a long-term alliance against Germany with France. Soviet work in cultural relations with France is extensive, both in propoganda inside France and in invitations to French groups to visit the Soviet Union. The USSR is handicapped by being unable to give France substantial economic aid, but Soviet wheat shipments in the spring of 1946 were both good publicity for the USSR and a fillip to the Communist Party on the eve of a general election. In general, the Soviet Union stands behind the French Communist Party, both with guidance on policies and with radio broadcasts designed to help the French Communists and embarrass their political opponents. Soviet broadcasts make a special

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point of trying to drive a wedge between France and Britain and the U.S.

Whenever higher priority long-range Soviet objectives require it, the French Communist Party may be expected to change its line at the risk of being accused of subservience, or to maintain an unpopular position even at the cost of losing followers. Thus the French Communists have had to shift the emphasis in their necessarily nationalistic German program to fit Soviet refusals to accede to French policies which might harm the Soviet aim of a Communist-dominated Germany. Moscow is likewise responsible for the fact that the French Communists have remained the advocates of colonial nationalists in the French Union and thereby outraged most Frenchmen, while dangerously isolating themselves on this important issue.

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II. U.S. ASSISTANCE TO FRANCE SINCE V-J DAY

A. U.S. Financial Assistance to France

From V-J Day until June 1, 1947, the U.S. authorized \$1,976 million of credits for the French Union. (Table 1 contains a summary of these credits by type and by amounts disbursed to date.) Of the total, the largest part was provided by the Export-Import Bank. Its share amounts to \$1,200 million, or one-third of the Bank's total lending authority. The remainder of the credits are divided as follows: \$56 million for the purchase of U.S. surplus ships, \$300 million for the purchase of U.S. surplus property in France, and \$420 million to cover French liabilities for post V-J day deliveries.

B. Other Assistance

Financial assistance is both the largest single factor in our aid to France and the most tangible. No less real, however, have been a whole series of other factors such as (1) political support of France's claims to sit as an equal with the principal victorious powers -- which, except for the Potsdam meeting, have been satisfied since the San Francisco conference; (2) the commitment (about to be belatedly fulfilled) to grant

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**U.S. Financial Aid to the French Union
Since V-J Day
(in millions of dollars)**

	<u>Amount Authorized</u>	<u>Amount Disbursed By June 1, 1947</u>	<u>Purpose</u>
1. Export-Import Bank Credits:			
December 4, 1945	550	550	To finance the completion of purchases requisitioned under lend-lease but not contracted for as of V-J Day.
2. July 13, 1946	650	424	To finance purchases of U.S. equipment and raw materials.
3. Ship Sales Credit	56	40	To finance purchases of up to 100 U.S. surplus war-built vessels.
4. Surplus Property	300 ^{a/}	300	To finance purchases of U.S. surplus property in France. The original cost of this property estimated at \$1,000 million; French estimate value to them approximately \$100 million.
5. Settlement of lend-lease and war-claims accounts (May 28, 1946)	420	420	To finance V-J Day lend-lease inventories, and post V-J Day transfers.
6. Total credits	<u>\$1,976</u>	<u>\$1,734</u>	

^{a/} An additional \$100 million has been authorized, but no contract has yet been signed with the French.

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France a part of our share of the German and Japanese navies; (3) the "loan" of 750,000 American-captured German POW's; (4) inestimable aid in procurement of scarce items, nutritional, medical, and industrial, during the immediate post-hostilities period; (5) a real understanding on the part of U.S. representatives on IEFPC and ECO for France's needs in wheat and coal; (6) support of the French requests for credits from the International Bank for Reconstruction and Development; (7) first choice in many surplus items of great interest to French recovery, etc. etc.

Finally, although this is a non-Government item, mention should be made of the large amount of direct aid to special groups in France by the American Red Cross, American Friends Service Committee, American Aid to France, and other relief organizations.

C. Contribution of U.S. Financial Aid to French Economic Recovery

During 1945 and 1946 France received and utilized foreign credits totaling about \$2,800 million, of which almost one-half (\$1,360 million) were from the U.S. During the same period the French expended approximately \$1,800 million of their gold and foreign exchange resources to finance the portion of their balance-of-payments of deficit not covered by foreign credits. Thus U.S. credits utilized by France since V-J Day represent over one-quarter of all credits and foreign exchange resources (above current French

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earnings) that were used by France in 1945 and 1946.

It is difficult to evaluate the contribution of U.S. financial aid to French economic recovery. Certainly it was more important than is indicated by the relative size of U.S. credits to France, or by the fact that in 1946 such aid provided France directly with goods and services amounting to approximately 6 percent of the quantities that were produced that year in France itself. The larger portion of the U.S. credits financed the purchase of goods which were absolutely necessary to the recovery of the French economy. Without imports of foreign materials and equipment, the French economy could have recovered only with the greatest difficulty and at a much slower rate from the extremely low production levels at which French industry was operating toward the end of the war. French foreign exchange or gold reserves were insufficient to finance all French import requirements, and France, unaided, could not have financed the balance of such requirements by increasing its own exports. French production and consumption during the immediate postwar period were at levels too low to allow an appreciable margin for exports, and the resumption of French exports themselves were largely dependent upon the prior reconstitution of stocks

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of raw materials of foreign origin. It is, therefore, beyond doubt that if U.S. credits had not been extended since V-J Day, not only would the total amount of goods and services available to France have been smaller by the amount of such credits, but also the actual volume of goods and services produced domestically would never have been achieved.

D. Political Effects of this Aid

Although there is no exact way of measuring the political effects of US aid to France, it is probably that it has had its greatest direct effect on government officials, less on deputies in the national assemblies, and least on the public. Those most closely concerned with solving France's economic problems have been most aware of the country's debt to the US and most grateful for our aid. The general public has not been subjected to a publicity campaign on our assistance in any way comparable to the efforts expended by the Communist Party to make every Frenchman aware of the Soviet wheat shipments immediately prior to the June 1946 elections. There have probably been few voters in any French election who cast their ballots for the representative of a particular party primarily because it was thought to stand well with the US Government. Nevertheless, the

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favorable accounts of US aid given by the Socialist and moderate press and the constant allegations by the Communist papers that the US is attempting to stifle French industry and agriculture in the interest of American exports indicate that the French political leaders themselves believe US aid has been one factor in the voters' minds.

The Department's Office of International Information and Cultural Affairs maintains a small staff in France which makes as much use of the public media of dissemination as its very limited funds and personnel permit. French newspapers, however, are by and large instruments of sections of internal political opinion and also suffer from a chronic lack of newsprint and funds. This means that the press of the extreme left, with its ample funds and secret subsidies, has had the fullest opportunity to distort or misrepresent the nature and the extent of US economic aid to France, in spite of the constant stream of facts and figures which the Information Officers of our Embassy make available to editors of newspapers throughout France. The unremitting and shrill Communist attacks and accusations against the United States suggest that there is active resistance on the part of the French public to accepting the Communist version of our achievements and our motives in the economic field. It is, however, certain

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that by comparison our own information efforts are puny and feeble, though they are certainly playing a highly important role which should be greatly intensified.

Indirectly, the fact that French voters have been better off because of U^S aid has probably inclined them to vote for less radical parties than they would have done if their circumstances had been even worse. In this connection, however, allowance must be made for the fact that the French Communists themselves have not been advocating a revolutionary program, but at the time of all three French elections have been foremost in demanding from the working classes discipline, hard work, and adherence to democratic parliamentary institutions.

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III. US OBJECTIVES

The United States wishes to see a France which is friendly and strong, serving as a bulwark of our security and our concept of democracy in the continent of Europe. Conversely we strive to prevent the development of a France which might eventually become the western bastion of an inherently hostile "continental system." Our immediate and long term interests, therefore, lie in the success of the liberal democratic forces in France which represent a substantial if divided majority now and, potentially, the overwhelming mass of Frenchmen. Should these political forces fail, the whole orientation of US policy toward France and Western Europe will have to be revised. The keystone of our policy has been that in the present battered state of France a return to economic health must precede a return to political health. Without neglecting diplomatic and moral support in the international field, we must do our utmost to assist in France's economic recovery.

France controls overseas areas, of vital strategic importance to this country, whose inhabitants are not ready for complete, much less sudden, independence. The promises of greater autonomy and improved

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conditions for dependent peoples contained in the Atlantic Charter, the Charter of the United Nations, and the new French Constitution, as well as the weakened condition of France, have given an impetus to the Nationalist movements in these areas such that a considerable degree of satisfaction must be given to their political and economic aspirations. Their continued association with a democratic France on a voluntary basis and under mutual guarantees of political, economic, and cultural rights is a primary objective of this Government. The collapse or serious deterioration of French authority in such areas would result in chaotic conditions which might well require an assumption by the US of wide and costly responsibilities, military, economic, and administrative, to prevent these areas from falling directly or indirectly within the Soviet orbit.

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IV. CONSIDERATION OF MEANS OF REACHING OBJECTIVES

Aside from broader considerations and merely so far as our objectives in France are concerned, it would be of the greatest advantage from both the economic and political points of view that our aid program to France be part of a larger scheme for the recovery of Europe. This is true economically first of all because the revival of France is bound up with that of Europe. The latter will permit an expansion of French exports and ultimately make available less expensive sources of essential imports. Conversely, the recovery of France in an organized framework of European economic relationships will maximize France's usefulness to the rest of Europe. An over-all economic program offers the best chance of limiting the waste implicit in duplications of new capital formation. It alone will permit an initial rational allocation of US aid -- which cannot be unlimited -- among various countries and prompt readjustments from country to country in the light of emergencies.

Politically, the French have been more encouraged by recent indications that the US Government is thinking in terms of Europe as a whole than by any specific post-liberation act of direct aid to their own country.

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In their eagerness to avoid the consequences of a clash between the US and the USSR, they were seriously disturbed by their earlier belief that the US considered its aid program a means of attaching European countries to it as bulwarks against the USSR. This accentuated the divisions among Frenchmen and afforded telling propaganda material to the Communists. The mere first step toward removal of the fear that the US was prepared to accept "two worlds" is an immense one in terms both of strengthening France by unifying Frenchmen and of making them more favorably disposed toward this country. Furthermore, although they recognize the practical difficulties in the way, Frenchmen are encouraged by the implications in the Secretary of State's speech at Harvard that the US believes Europeans capable of working out a reasoned common program. United Europe is an ideal which commands real allegiance among forward-looking Frenchmen.

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A. Economic

In order that France may achieve a reasonable degree of political stability and may maintain its democratic traditions, the standard of living of the people and primarily of the urban workers will have to be raised quickly, and economic prospects will have to improve.

Any permanent, self-sustaining rise in the French standard of living can come only from a large-scale capital formation program such as that envisaged with the aid of foreign credits under the Monnet Plan. Given the present unstable political situation, however, a prompt substantial and effective increase in consumption will yield the most beneficial results. The first step in this direction must be assistance from abroad. If this initial aid is forthcoming and extensive, it should enable the Government to win the necessary public support for an economic program designed at least to limit further price rises, to induce increased deliveries of domestically produced food to legal markets, and to reduce uneconomic inventories. In this way domestic production can be raised and France can supply by its own means a larger part of its consumption needs.

This short-run, emergency consumption-support program will permit

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only a small increase in investment in 1947 and 1948 over what would otherwise have taken place, so that total investment will probably be far short of the Monnet Plan program. (See Section I, A, 1, d).

The second and final economic measure which must be taken is to assist France in implementing its capital formation plans. These plans can probably be completed from one and one-half to two years behind the original optimistic Monnet schedule. It is desirable to reaffirm early and in concrete terms US support of these plans in order to permit French planning to proceed efficiently and to give the French people reason to believe the US fully expects and desires them to have a useful, productive, and bright economic future.

For reasons of both economic efficiency and political tranquillity it will be necessary that the various territories of the French Union benefit from the program of aid to France. France has recently been unable to supply the consumption goods demanded by the local populations if they are to work and has regulated and limited their purchases abroad. The aid program must therefore provide increased imports of incentive goods.

Partly in response to accumulating pressures from restive native populations,

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partly from a genuine sense of the inadequacy of past policy, the French Government has committed itself to programs of economic and social reforms in its overseas departments and territories and in its North African protectorates. This means, in addition to the need of allowing increased imports of consumer goods, a rise in the rate of capital formation dependent on foreign assistance via metropolitan France.

B. Political

Aside from encouragement of European cooperation, the most fruitful field for US political aid to France lies in adjustments of those aspects of our own German policy -- both as to occupation and as to the treaty settlement -- in which US and French policies have differed.

In general, our political effort with regard to France should be directed toward assuring the French people that we respect France and its Government, in the hope that this will increase the self-confidence of the Government as well as public confidence in it. Steps in this direction

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should consist less in specific acts granting bilateral concessions than in the continual exercise of care in the manner in which we conduct our relations with France. The US Government should continue to make allowances for the hypersensitivity of Frenchmen resulting from the shock of their fall from real great-power status, from their guilt complex over abandoning the Republicans in the Spanish Civil War and their British ally in 1940, and from the unexpected bitterness of colonial nationalists in the French Empire.

This careful handling of the French will have to take place to some extent in the UN, where the US will have the opportunity of giving a considered hearing to French proposals, of supporting French nominees for committee posts, and the like. Other opportunities will present themselves in direct contacts over such affairs as the expression of US concern over relationships within the French Union and the negotiations of agreements on the rights of US military personnel in France or the terms of recruitment of German labor from the US occupation zone in Germany.

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C. Information

In proportion as a United States aid program to France may prove effective and may dispose French opinion more favorably toward the United States, the principles, motives and objectives of such a program will continue to be distorted and attacked by the extreme left.

It is not difficult to foresee an intensification of the current party line which accuses the United States of intentions to subordinate the French economy to the far-reaching designs of the "trusts," to exert a stranglehold on French political independence, and to reduce France to the position of a dependent pauper while the United States invades and exploits the markets offered by French colonial possessions.

In view of these existing and future subversive and terribly effective anti-American campaigns, consideration should be given to a highly selective information program on the spot, as part of the general information and cultural work of the Embassy. Such a program must reach the key points in the nerve system of French politics, and of the labor structure. The great industrial centers such as Lille, St. Etienne,

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Lyon, Strasbourg, as well as the leadership of the CGT must be the targets of such a program, which should include lectures by competent visiting spokesmen from the United States, the periodical publication of facts, figures, texts, and speeches, and exhibits and film showings in factories and labor centers. This local program would naturally have to be combined with the continuous long range information program from the United States by radio, and with the intensive cultivation of French newspapers (by direct or indirect methods). ~~by the Press Office of the State~~

~~It is~~ It is not enough to expect that the official position of the United States, as expressed through the United Nations and by agreements between our governments, will be understood or appreciated by the French public, or will stand up against the violent and penetrating campaigns of the Communist Party.

D. United Nations

Under present world conditions, the United Nations should not be regarded as a major alternative means for the achievement of United States objectives in France. However, the United Nations is a vital means of supporting and strengthening United States action. Moreover, if aid to

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France becomes part of an overall program of world reconstruction, this program might be brought into relationship with the UN as suggested in the Addendum of June 10 to SWNCC 360.

In connection with the broad political objectives of the United States, the guarantees of the Charter and the machinery of the United Nations will assist in maintaining the independence and status of France, provide opportunities for close Franco-American collaboration, help to contain Soviet expansion and maintain the integrity of small states whose decline would adversely affect France. By fostering the improvement of conditions in trust territories, the trusteeship system will be a powerful means of supporting progressive colonial policies generally.

France is an active member of all United Nations agencies, and is an important participant in their overall economic programs. The kinds of technical assistance which might be extended to France by these agencies in specific cases, especially for long-range programs, have been set forth in addendum of June 10 to SWNCC 360. The Department would need to consider any recommendation it made for the use of these agencies in the light of the aid program as a whole.

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V. MAGNITUDE, NATURE AND TIMING OF THE MEASURES REQUIREDA. Commodity Needs

Though the emergency consumption-support program should allow for increased availabilities for nonfood consumers' goods through increased imports and increased retention of domestic production, its primary objective for the fiscal year 1948 should be to raise the urban diet from the present average of 2250 calories per capita per day to roughly 2,500 calories, and to improve its quality. This would permit the bread ration to rise from its current unsatisfactory level of 250 grams per day to 350 grams -- equal to the highest the ration has been since liberation. To achieve this at a time when France's breadgrain crop will be 1.5 million tons less than last year will require imports of from 2.0 to 2.5 million tons in the crop year 1947-48. (This is to be compared with allocated imports of 1.0 million tons in 1946-47.)

In order to permit a substantial recovery of French industrial production, greater coal imports will be necessary than the 12-14 million tons that will probably arrive in 1947 under present programming. It is estimated that imports of 18-20 million tons would be required to run French industry at close

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to its capacity in 1947. This would allow industry to operate at a level roughly 15 percent higher than it could without the additional 6-8 million tons of coal. As the investment program expands this capacity, still greater imports, averaging 22-25 million tons annually by 1949 and 1950, will be required.

France will also need assistance in the procurement of fertilizers and agricultural machinery to permit it to expand its domestic food production, as well as assistance in obtaining all sort of capital equipment. Details as to requirements of these commodities are not now available.

B. Financial Needs

For the economic program outlined in Part IV, the French Union will need \$4.4 billion worth of goods and services (valued at current prices) more than it will be able to pay for out of its current earnings in the period 1947-50. To finance this amount of capital imports France will probably liquidate \$1.1 billion of its gold and foreign assets and will exhaust its existing \$1.0 billion of foreign credits. To finance the estimated \$2.3 billion uncovered deficit for the period of 1947-50 France will have to look almost entirely to the US and to the International Bank and Monetary Fund. It is probable that after 1950 no additional foreign funds will be required by France.

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The table below summarizes France's foreign capital needs and the means by which some part may be financed from existing sources:

ESTIMATE OF THE FOREIGN FINANCIAL REQUIREMENTS OF THE FRENCH UNION, 1946-50.
(In billions of dollars)

	Gross Capital Import Requirements	Liquidation of Financing Now Available		Additional Dollar Requirements
		Foreign Assets and Gold	Existing Credits	
1946	2.2	1.1	1.1	-
1947	1.6	0.7	0.9	0.0
1948	1.5	0.3	0.1	1.1
1949	0.9	0.1	0.0	0.8
1950	0.4	0.0	0.0	0.4
Total 1947-50	4.4	1.1	1.0	2.3

Note: 1946 data represent actual achievements; 1947-49 estimates are valued in current prices.

These estimates are made in current prices. They assume a high level of income in the US and a substantial recovery of the European economy to provide markets for the goods which France will be able to export. The non-fulfillment of either of these two assumptions would increase the funds required to reach our economic objectives for France.

Although total import requirements, not shown in the table, will increase over the period, France's exports and tourist trade are expected to

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recover in even greater proportion so that its foreign capital needs, or balance-of-payments deficits, will decline annually. Thus France's total gross capital requirements are expected to fall, at an uneven rate, from \$2.2 billion in 1946 to \$0.4 billion in 1950.

At the end of 1947 French gold and foreign exchange reserves, not including an unknown quantity of blocked dollar assets held through Switzerland, will be reduced to an all-time low of roughly \$0.5 to \$0.6 billion; by that time France will have no long-term dollar assets available for liquidation. This will occur despite repeated assurances to the French public that reserves will not be allowed to fall below the figure of \$1.0 billion. Any further reduction of these reserves may have unfavorable repercussions in terms of the general confidence in the value of the franc, for some time the subject of grave misgivings on the part of the French people. From 1948 through 1950 the \$0.4 billion in foreign assets that France is expected to draw on will consist entirely of non-dollar long-term securities, both publicly and privately owned.

The sums estimated as required for the French Union (aside from French Indochina) in the above calculations total approximately \$100

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million for each of the years 1948, 1949, and 1950.

C. United Nations

The general United Nations measures which would support action by the United States have been set forth in IV (D) above.

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VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES
UNDER PRESENT POLICIES

Of the additional \$2.5 billion which France will require in the period 1947-50, some part may be financed by an additional International Bank loan.

It seems probable that the International Bank, which granted France a \$250 million loan in May 1947, will extend a second credit in 1948 amounting to \$250 million and possibly to as much as \$500 million. In addition, France is negotiating with Switzerland for the control of private French dollar assets held through Swiss banks. It is possible that these negotiations will prove successful in releasing by the end of 1948 approximately \$200 million of convertible currency for the use of the French Government. Thus, it is likely that France will have available from \$450 to \$700 million to cover part of its deficit.

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VII. ADDITIONAL MEASURES REQUIRED FROM THE US

It is estimated that France will need \$1.3 to \$1.6 billion over and above what it already has at its disposal and what it may obtain from the International Bank and from negotiations with the Swiss. This can probably be obtained only from the US Government.

Though the additional funds required will not be used until 1948 and will be needed through 1950, it is desirable that they be given early. This procedure will make the task of the French planners easier and will give the ordinary Frenchman the sense of security that derives from his faith that the US is taking a long-term interest in his welfare.

France, which is now a net international debtor, has already contracted to make payments of interest and principal of over \$150 million annually for 10 years after 1950. For the following 10 years the payments may be less, but they will remain substantial. Thus, a requirement that France repay the additional funds now needed would place another burden on its standard of living in the future. Furthermore, since it now seems likely that prices will fall, repayment would require France to export more real goods than were originally imported. Such repayment, consequently, would

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be extremely difficult both for the US domestic economy to receive and for France to pay. On balance, then, it is desirable that the additional funds required by France be granted outright as a gift.

The problem of giving France more of the commodities in short supply is a world problem. A system of preferred treatment for France in the allocating systems of the IEFC (for breadgrains), the ECO (for coal), etc., would necessarily mean a retardation of recovery elsewhere. Hence, American assistance to France in the procurement of commodities in short supply can probably be best given in the form of (1) increasing total US exports and (2) exertion of US influence toward increasing production elsewhere so that the French may share equitably in a growing world output.

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VIII. NATURE OF ARRANGEMENTS WITH FRENCH GOVERNMENT
TO ENSURE SUCCESS OF PROGRAM

While it is desirable to find some mutually agreeable formula whereby increased production in France would be closely related to American assistance, no direct American supervision of the aid program can be contemplated in this highly civilized, nationalistic, and sensitive country, which still has the status of a great power. However, the adoption by the US of a substantial aid program for France would certainly increase US influence with the French Government, and this influence could and should be discreetly exercised not only regarding general French economic policies as they affect the program itself, but also with regard to broad international and colonial questions, such as the German settlement and the relationships between France and its dependant peoples.

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IX. EFFECTS OF REFUSAL TO GRANT AID OR OF FAILURE OF
PROGRAM UNDERTAKEN

A. Effects upon France

Either the absence or the failure of the short-term consumption-support program for France would have prompt and disastrous consequences. Economically, inadequate wheat shipments would mean an even more deficient diet for the urban workers. Failure to increase coal deliveries to France would keep industrial production at the present depression levels and would mean another winter with inadequate heating for French homes. These economic effects would aggravate popular dissatisfactions sufficiently to bring about the fall of the present government and strengthen the factions advocating extreme solutions. These political effects in turn would make it more difficult for France to organize its economy so as to make the maximum use of its domestic economic resources.

Absence of a US short-term aid program, or failure to implement it, would tremendously increase the puzzlement and resentment in France at the

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policies of this "land of plenty." It would play into the hands of the hostile Communist propagandists.

Absence of a US program of grants or loans to France (or for Europe, with a French share guaranteed) for the years 1948-1950 would have adverse effects far ahead of the time when purchases made under such a grant would reach France. For failure on the part of the US to pass an aid program would tend to sap the hope of the French. They would conclude that the US had no faith in the trustworthiness or ability of them or their government and would thereby lose still more of their inadequate self-confidence. The diminished prospects for French recovery would in themselves lower French hope in a better national future.

French self-confidence will not of itself cure France's economic, political, and administrative ills. But lack of it will very probably result in the abdication of those elements in French life that are friendly to the United States and uphold the same values. Conscious of France's

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economic and military weakness, ^{if} these elements feel that they cannot count on at least the economic aid of this country they will yield leadership to those Frenchmen who claim to be able to count on the economic and military support of the Soviet Union. Failure of the US aid program would have similar final results from loss of hope, only later.

The purely economic effects of absence or failure of the long-term financial aid plan would be, at the least, a serious postponement in the rate of French industrial recovery. By saddling France for a longer period with obsolete and inadequate production facilities it would both weaken the country economically and decrease its strategic ability to contribute to its own security or to a collective security system.

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B. Effects Upon United States Policy

A special program of aid to France will be undertaken only if it is the considered judgment of this Government that failure to do so would imperil the maintenance of the strong, friendly and democratic France which the United States desires. A hopeless enfeebled France invites the direct or indirect domination of the USSR. A France so dominated would require a basic revision of our policy, both diplomatic and military. The extent to which the French Union was included in this domination would have an important bearing on this revision, whose scope transcends that of the present paper.

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X. POSSIBLE EMERGENCY SITUATIONS

The situation in France is already of an emergency character, and the consumption-support program proposed in Sections IV and V is an emergency scheme for dealing with the crisis.

In the future, the following situations would constitute new emergencies requiring re-examination of the US aid program with a view to its increase or decrease, acceleration, suspension, or cancellation:

- (1) A French harvest more disastrous than anticipated;
- (2) A substantial drop in coal deliveries from Germany;
- (3) Acceleration of the rate of inflation;
- (4) Fall of the ~~Mamadier~~ government and formation of a new coalition with Communist possession of such key posts as the Premiership, Ministry of Foreign Affairs, and Ministry of the Interior;
- (5) Civil war;
- (6) Seizure of power by either the Communists or the Extreme

Right;

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(7) Communist domination of Italy;

(8) Failure of the Council of Foreign Ministers meeting in London in November 1947 to make progress concerning the German settlement; or

(9) Failure of the European states to agree on any common recovery program.

The mere re-entry of the Communists into the Ramadier government, or formation of another coalition government with Communist participation, would not constitute an emergency requiring re-examination of our aid program.

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XI. SUMMARYI. ANALYSIS OF THE SITUATIONA. Basic Forces

There is danger within the immediate future of France failing to be the strong, democratic, and friendly power which accords with US interests and the desires of most Frenchmen. This may occur if the confidence of the French people in their present moderate middle-of-the-road leadership is so shaken by the intolerable economic conditions that they will offer little resistance to totalitarian thrusts from either the Communists or the extreme right. The Communists will in this event be the most likely beneficiaries since chaotic conditions will favor the fullest play to their carefully built up control of key trade unions, infiltration of the civil administration, police and armed forces, and possession of military formations. If the orientation of the French people toward the United States is to be maintained, the present government must effect some immediate economic improvements and present the country with hope for the future.

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1. The Economic Situation. The principal characteristics of the French economic situation are a standard of living significantly below pre-war levels, inflation, and a slowing down of the rate of recovery of industrial production. Much of this is beyond France's control since coal, food, and fertilizer are in short world supply, and furthermore such quantities as are available must be purchased with scarce dollars.

a. The standard of living. While farmers and many black market operators maintain pre-war rates of consumption, the consumption level of the urban wage earner ranges from 60 to 70 percent of the depression year 1938. However, the general standard of living is lower than this because of the exhaustion of stocks of durable and semi-durable goods as a result of five years of war and occupation. Furthermore, food consumption has dropped from a daily caloric intake of 2650 before the war to 2250 today.

b. Inflation. The inflation is caused by huge governmental budgetary deficits financed by large monthly advances from the Bank of France, at a time of limited consumers' goods and expectation of continued price rises.

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c. Industrial production. French industrial production stands at about 90 percent of pre-war, but because of the huge backlog of replacement orders, and the necessity for export to dollar areas, this respectable figure is not reflected in the standard of living. A further increase in production is severely limited by the shortage of coal and other restrictive features involved in inflation, political uncertainty, and loss of confidence in the future.

d. The Monnet Plan. The Monnet Plan was designed to increase and modernize France's industrial plants and equipment in the years 1947 to 1950 and so to raise the productivity of the country in order to achieve and maintain a high standard of living. The program calls for a 20 percent rate of gross capital formation in 1947. Because of the low levels of national income and consumption, this heavy investment program cannot be implemented in full this year, probably falling two billion dollars short of the original plan.

e. Foreign trade. Low domestic production and high consumption needs in France leave little available for export. In 1946 France was able

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to pay for less than half of its imports out of current earnings. The balance has been made up from foreign, principally US, credits and by the liquidation of France's gold and foreign exchange reserves. The latter are being quickly drained, with the result that France will depend more and more on new foreign credits to balance its international payments.

2. Political Disillusions and Dissensions. Liberation and victory over Germany raised high hopes in France of a "brave new world." These hopes have been dashed on almost every score. Basic political differences emerged from their temporary disappearance in the "resistance spirit." The new constitution was remarkably like that of 1875. The parties were as divided and as selfish as before the war. The Fourth Republic began on a sour note emitted from the trumpet of General de Gaulle. The parts have been unwilling to make sacrifices for the good of the whole. Confidence in the disinterestedness of political leaders has vanished.

3. Apprehension over World Tensions. Feeling that they are a great power in name only, and that the fate of Europe is in the hands of extra-European super-powers, the French are paralysed by fear of a third world

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war in which they would be a pawn. Hence, ~~in spite of the natural attraction of the great majority towards the United States, they fear that the US will force them to choose sides in a potential world conflict.~~

Coupled with this fear of war between the US and the USSR is the traditional fear of a resurgent Germany able to play East against West for its own benefit, with inevitable disaster to France. Finally, the average Frenchman is bewildered and resentful over ^{France's} the inability of reform programs to satisfy the rising colonial nationalisms in the French Union.

4. French Communist Strength. The French Communist Party received 28.5 percent of the total votes in the November 1946 election. The largest in France, it owes its preeminent position to: (1) their patriotic record during occupation and since liberation; (2) their position on the extreme left of the political spectrum, where they catch the protest vote against administrative inefficiency or economic inequities; (3) their unceasing and well-designed appeals to particular groups, including the farmers; (4) possession of a cynical propaganda machine, first-rate in polemical quality, nation-wide in scope, and including two of the four newspapers

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with the highest circulation in France; (5) access to apparently unlimited funds; (6) their drive and efficiency, which has given the impression that they at least could get things done; (7) the offer of hope for a better future to which they alone among the parties seem able to give an authentic ring; and (8) the "band wagon" urge of Frenchmen who see Communism as the "wave of the future".

In a crisis, however, the strength of the Communists would lie less in being "the first party of France" than in their possession of:

(1) Domination of the major trade-union organization (the CGT) and control of important component unions;

(2) Infiltration by trusted Communists into the highly centralized French administration, principally in those ministries which have been headed by Communist ministers: Industrial Production, Armaments (which controls the State arsenals), Air, Reconstruction, Labor, Veterans, and Public Health;

(3) Infiltration of undetermined but differing degrees into the Army, Air Force (notably ground force personnel at the airfields,)

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Gendarmerie, and Municipal Police Forces (including that of Paris);

and

(4) Command of clandestine armed forces of undetermined strength, well organized around the battle-trying nucleus of the Communist underground (the FTP), and of reactivated international units dating from the Spanish Civil War.

While there is some doubt as to the Communists' ability to seize power, and much more as to their ability to retain it after a successful coup d'état, no one questions that they could for a time totally disrupt the life of France.

5. The Shadow of de Gaulle. General de Gaulle stands in opposition both to the present government and to the Communists. He believes that the economic crisis will prove too much for the politicians and that the people will call upon him to save France. To this end, he has founded an extra-parliamentary movement which stands, like himself, "above parties". Adherents to this movement are not numerous and come from the right center and right. However, he is potentially the most popular single man in France,

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in spite of the fact that both Socialists and Communists, officially at least, are solidly against him. For that reason, a move to bring de Gaulle back would invite a Communist-led general strike, and perhaps civil war.

B. Present Position of the Ramadier Government

The Ramadier Government's position is grave, but not entirely hopeless. It has been unable to maintain the Blum experiment of wage ceilings and price decreases. The inflationary tendency is intensified by a new round of wage increases forced upon Ramadier by the recent strikes. Ramadier's own party is badly divided, and the coalition is being subjected to severe strain. If he can survive the next two months, the French political picture may gradually brighten, especially if the Marshall Plan discussions afford promise of improved economic conditions.

C. Objectives and Methods of Other Great Powers

1. Great Britain. The desire of all British political groups to see a strong, friendly, and democratic France has been imperfectly implemented since the war. The impact of British Socialism has been barely

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felt in France, and the British have made no real effort to compose their dangerously profound differences with France over the German settlement. On the credit side, however, may be mentioned the Franco-British alliance of March 1947, a post-war financial settlement favorable to France, the tripartite coal agreement made at Moscow, and the supplying of military equipment to the French armed forces.

2. The USSR. The two-fold objective of Soviet policy has been to neutralize France as a factor in any political or economic grouping or association of Western European nations through the French Communist Party and to prepare a structure of government for use if the Kremlin should take direct control of Western Europe.

II. US ASSISTANCE TO FRANCE SINCE VJ-DAY

A. US Financial Assistance

From VJ-Day until June 1, 1947, the United States has authorized \$1,976 million of credits for the French Union, of which \$1,200 million were provided by the Export-Import Bank.

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B. Other Assistance

Less tangible, but no less real than financial assistance, has been US support to France in the political, supply, and labor fields. For example, we have consistently stood behind France's claims to sit as an equal with the principal victorious powers, and supported French requests for credits from the International Bank; our representatives on the IEFC and the ECO have shown real understanding for French needs in wheat and coal, and we have given France first choice of many items of surplus property of great interest to French recovery; we have aided in the procurement in the United States of scarce nutritional, medical, and industrial items; we loaned France 750,000 American-captured German POWs, and are favoring the partial replacement of this labor from our zone in Germany as these prisoners are repatriated.

C. Contribution of US Financial Aid to French Economic Recovery

US credits utilized by France since VJ-Day represent over one-quarter of all credits and foreign exchange resources that were used by France in 1945 and 1946. While it is difficult to evaluate the exact contribution of

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this aid, the major portion of US credits financed the purchase of goods which were absolutely necessary to the recovery of the French economy.

It is, therefore, beyond doubt that if US credits had not been extended since VJ-Day, not only would the total amount of goods and services available to France have been smaller by the amount of such credits, but also the actual volume of goods and services produced domestically would never have been achieved.

D. Political Effects of this Aid

These also are difficult to evaluate. They have been great, but not as great as they could have been had we been in a position to counter effectively the Communist propaganda campaign which attacked the United States in general and belittled American assistance.

III. U.S. OBJECTIVES

The United States wishes to see a France which is friendly and strong, serving as a bulwark of our security and our concept of democracy in the continent of Europe. Conversely, we strive to prevent the development of a France which might eventually become the western bastion of an inherently

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hostile "continental system". Our immediate and long-term interests, therefore, lie in the success of the liberal democratic forces in France which represent a substantial, if divided, majority now and, potentially, the overwhelming mass of Frenchmen. Should these political forces fail, the whole orientation of US policy toward France and Western Europe will have to be revised. The keystone of our policy has been that in the present battered state of France a return to economic health must precede a return to political health. Without neglecting diplomatic and moral support in the international field, we must do our utmost to assist in France's economic recovery.

France controls overseas areas of vital strategic importance to this country, whose inhabitants are not ready for complete, much less sudden, independence. The promises of greater autonomy and improved conditions for dependent peoples contained in the Atlantic Charter, the Charter of the United Nations and the new French Constitution, as well as the weakened condition of France, have given an impetus to the Nationalist movements in those areas such that a considerable degree of satisfaction must be given to their political and economic aspirations. Their continued association with

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a democratic France on a voluntary basis and under mutual guarantees of political, economic and cultural rights is a primary objective of this Government. The collapse or serious deterioration of French authority in such areas would result in chaotic conditions which might well require an assumption by the US of wide and costly responsibilities, military, economic and administrative, to prevent these areas from falling directly or indirectly within the Soviet orbit.

IV. CONSIDERATION OF MEANS OF REACHING OBJECTIVES

Our aid program to France should be, if possible, related to a larger scheme for the recovery of Europe. One need only mention the eagerness with which the French Government and the people responded to the Secretary's recent speech at Harvard.

A. Economic

The maintenance of political stability and democratic traditions in France depends on the rapid improvement of economic prospects and the standard of living. While only a large-scale capital formation program can permanently raise the French standard of living, a prompt, substantial and effective increase in consumption must be brought about by assistance from

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abroad in order that the government may win the necessary public support for a program to eliminate further price rises, induce increased farmer deliveries, and reduce uneconomic inventories. After the adoption of this short-run emergency consumption-support program, France's capital formation plan must be encouraged, with American financial support. While the short-run program will delay the Monnet program by two years, it is desirable to announce as soon as possible American aid for the capital formation program.

For both political and economic reasons, the French Union must benefit from the program of aid to France by securing increased imports of consumer goods, plus a rise in the rate of capital formation via Metropolitan France.

B. Political

Material assistance, vital though it be, is not sufficient to restore to democratic health a country like France whose illness springs from a complex of psychological and political as well as economic causes. Consequently, it must be accompanied, where possible, by an intensification, on the negative side, of our forbearance with the awkwardness, tactlessness and ineptitude which characterize almost every French reappearance on the international scene and, on the positive side, of our political support for those

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aspects of French foreign and colonial policy which are considered vital by the democratic majority in France and which do not run counter to our own interests and those of world peace.

C. Information

In view of the increased distortion by the Communist propaganda machine of the principal motives and objectives of the United States, it will be necessary to contemplate a highly selective American information program as part of the Embassy in Paris, coordinated with the long-range information program from the United States by radio. This must be accomplished by intense cultivation of French newspapers (by direct or indirect methods) by the press officer of the Embassy.

D. United Nations

While the United Nations cannot be regarded as a major alternative means for the achievement of the US objectives in France, it is a vital means of supporting and strengthening United States action. The machinery of the United Nations provides opportunities for close Franco-American

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collaboration, and specialized United Nations agencies may provide valuable technical assistance in long-range economic programs.

V. MAGNITUDE, NATURE AND TIMING OF THE MEASURES REQUIRED

A. Commodity Needs

Importation of 2.0 to 2.5 million tons of bread-grains will be required in the crop-year 1947-48 if the French bread ration is to rise from 250 grams per day to 350.

Eighteen to twenty million tons of imported coal during 1947 will be necessary to run French industry in conformity with the program. Under present programs, France will import 12 to 14 million tons. In 1949 and 1950 imports averaging 22 to 25 million tons annually will be required by the program.

France will require imported fertilizers and agricultural machinery to permit the expansion of domestic food production. Detailed requirements are not now available.

B. Financial Needs

For the economic program outlined in Part IV, foreign financial requirements of the French Union are estimated at

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1.1 billion dollars in 1948,
 0.8 billion in 1949, and
 0.4 billion in 1950, making a total of 2.3 billion dollars for

those three years. After 1950, no additional foreign funds should be required by France.

VI. PROBABLE AVAILABILITY OF ECONOMIC AID FROM EXISTING SOURCES UNDER PRESENT POLICIES

It is unlikely that France could obtain one-quarter of her foreign financial requirements for the years 1947-50 under present policies. It is likely, however, that France will receive \$450 to 700 million from the International Bank and from hidden French dollar assets now held through Swiss banks.

VII. ADDITIONAL MEASURES REQUIRED FROM THE UNITED STATES

Only from the United States Government can France obtain the estimated 1.3 to 1.6 billion dollars required for the program over and above what she has at her disposal and the possible resources discussed in the preceding paragraph. If we are to give these funds, we should promise them at an early date in order to make the task of the French planners easier, and to give the ordinary Frenchman a sense of security and confidence in the future.

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Because of the heavy interest payments which France will be required to make abroad over the next ten years, it is desirable that these additional funds be granted France outright as a gift.

With respect to commodities in short supply, such as coal and wheat, France cannot be given privileged treatment in the international allocation system. We can best help her in this regard by increasing total US exports and promoting increased production elsewhere so that France may share in a growing world output.

VIII. NATURE OF ARRANGEMENTS WITH FRENCH GOVERNMENT TO ENSURE SUCCESS OF PROGRAM

While it is desirable to find some mutually agreeable formula whereby increased production in France would be closely related to American assistance, no direct American supervision of the aid program can be contemplated in this highly civilized, nationalist, and sensitive country, which still has the status of a great power. However, the adoption by the US of a substantial aid program for France would certainly increase US influence with the French Government, and this influence could and should be discreetly exercised not only toward general French economic policies as they affect the program

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itself, but also toward broad international and Colonial questions, such as the German settlement and the relationships between France and her dependent peoples.

IX. EFFECTS OF REFUSAL TO GRANT AID OR OF FAILURE OF PROGRAM UNDERTAKEN

A. Effects Upon France

The absence or the failure of the short-term consumption-support program for France would have prompt and disastrous consequences. It is sufficient to mention the effect on the French diet and on French industry if present imports of coal and wheat were to cease. The political effect would be the fall of the present government and the strengthening of factions advocating extreme solutions. As we have seen, the French Communist Party would be the more likely beneficiary.

B. Effects Upon the United States

A special program of aid to France will be undertaken only if it is the considered judgment of this Government that failure to do so would imperil the maintenance of the strong, friendly and democratic France which the United States desires. A hopelessly enfeebled France invites the direct or indirect domination of the USSR. A France so dominated would require a

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basic revision of our policy, both diplomatic and military. The extent to which the French Union was included in this domination would have an important bearing on this revision, whose scope transcends that of the present paper.

X. POSSIBLE EMERGENCY SITUATIONS

The situation in France is already of an emergency character. The development of the following situations would constitute new emergencies requiring the decrease, acceleration, suspension or cancellation of the United States aid program:

- (1) A French harvest more disastrous than anticipated;
- (2) A substantial drop in coal deliveries from Germany;
- (3) Acceleration of the rate of inflation;
- (4) Fall of the Ramadier government and formation of a new coalition with Communist possession of such key posts as the Premiership, Ministry of Foreign Affairs, and Ministry of the Interior;
- (5) Civil war;
- (6) Seizure of power by either the Communists or the Extreme Right;

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- (7) Communist domination of Italy;
- (8) Failure of the Council of Foreign Ministers meeting in London in November 1947 to make progress concerning the German settlement; or
- (9) Failure of the European states to agree on any common recovery program.

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