

NEW YORK STATE BANKING DEPARTMENT  
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THE EUROPEAN CRISIS

(Address of Elliott V. Bell, Superintendent of  
Banks, before the Annual Convention of the  
National Association of Supervisors of State  
Banks at the Mayflower Hotel, Washington, D. C.)

Within the past two months there have been piling up along the economic horizon the thunderheads of a great approaching storm. Western Europe is facing the immediate prospect of economic collapse unless the United States once again comes to the rescue.

As most of you know, I have only just returned from Europe, where I spent the better part of the Summer talking to bankers, business men, economists, public officials and people of all sorts in an effort to obtain a better understanding of this approaching crisis. As a result, I am convinced that the crisis is real and that it has profoundly serious implications for all of us.

The problem of European recovery is enormously complicated. There is a crisis in material things and a crisis in morale. Both these crises have their immediate and their long-term aspects.

It is becoming increasingly clear that both here and abroad everyone underestimated the degree of physical and spiritual damage wrought by five years of total war. Even today, nearly two and a half years after Germany's surrender, the evidences of destruction are on all sides.

In the City of London, the heart of what was formerly the financial center of the whole world is still a vast, flattened area of rubble,

where the purple fireweed blooms among the crumbled bricks and mortar. In Rotterdam, Holland's great seaport and commercial center, you can still look right through the middle of the city without anything to obstruct the view of the countryside beyond save, here and there, a stump of ruined masonry. Berlin is only a ghost city whose people live in cellars and in the shattered wreckage.

Throughout the liberated countries farmers till their fields beside the roofless ruins of their old stone barns. Here and there the twisted wrecks of Tiger tanks still lie in fields and along hedgerows to mark the places where the tide of battle passed. Hardly a town seems to have escaped without some wrecked homes.

Even in the great cities many buildings, otherwise undamaged, still lack glass for their windows. Everywhere along the main roads, at intersections, and especially near the coast, there remain the massive concrete pill-boxes and bunkers that the Nazis built. Literally, the people of Europe are still living upon the battlefields.

The destruction wrought by five years of total war must be repaired before there can be any hope of a resumption of normal economic activity. Think for one moment what it meant to have all the bridges destroyed. Before any materials could be moved or the most rudimentary commerce re-established all of those bridges had to be repaired or replaced. To add to the difficulties, Europe has been afflicted this year with a Winter of unprecedented severity and a Summer marked by the worst drought in many decades. The sheer physical problem of recovery from the destruction and dislocation of war is enormous.

Beyond this, it is gradually becoming apparent that the long-term problem of restoring economic stability to Western Europe reaches even deeper than the ravages of the Second World War. Europe is, in fact, suffering from the effects of two World Wars and the depressed years that intervened. Europe is facing the necessity of adjusting to a world that has greatly altered in the period covered by those two World Wars.

The position of Great Britain illustrates the profound changes that have taken place. During the nineteenth century Great Britain rose to a position of unquestioned primacy in the world. She was the leading industrial nation, the world's banker; her navy ruled the seas and the sun never set upon her possessions. Britain at that time was immensely rich. The products of her industry were in eager demand among the food and raw material producing nations. Her huge business in shipping, banking and insurance brought in a share of profits from the commerce of many other countries. The income from her world-wide investments was very large.

Britain's adventurous sons had scoured the earth and brought her back the riches of many lands. Thus situated, Great Britain was able to maintain at a relatively high standard of living a population far larger than could be supported by her own soil.

In the First World War Britain lost almost the entire manhood of one whole generation. She lost her primacy as the world's banker. She acquired heavy external war debts which she ultimately had to confess herself unable to meet. Her people, for the first time, found themselves burdened with onerous and discouraging taxes. As an aftermath of that war Britain's pound sterling ceased to be the world's foremost medium of exchange and became

an irredeemable currency. Her industrial plant became more and more antiquated. Yet Great Britain remained a great power and it was Britain in the end that drew a line past which Hitler could not go without having to fight.

In the Second World War Britain suffered further terrible losses. The bulk of her foreign investments is now gone. Her shipping has been largely destroyed. Her debts are crushing and her industry is in need of large-scale rebuilding and modernization. Add to this the fact that she must devote much of her energy to the repair of her bomb-damaged towns and cities so that her people can once again have a place in which to live and work.

Today more than ever it is true that Britain must export or die. Yet the world has greatly changed since the days of the nineteenth century when Britain developed the pattern of her industrial economy. Eastern Europe, from which Western Europe formerly received much of its foodstuff, is now cut off behind the iron curtain. The whole area under the influence of Soviet Russia is withdrawn from the channels of normal trade and is seeking to develop a self-sustaining autarchy. The United States has become by all odds the leading industrial nation in the world. Other raw material and food producing countries are seeking more and more to develop their own industries. Among all nations trade is throttled by a spirit of nationalism and the desire for self-sufficiency. The ties of empire have been loosened and in some cases broken. In such a world there is a very real question whether Britain, weakened by two world wars and a world depression, can survive without drastic readjustments.

In a broad sense what is true of Britain is true of Western Europe

as a whole, although there is much variation among the nations. Western Europe has a population far larger than can be supported by the food and raw materials produced by that area. Its past prosperity was based upon industrial supremacy which enabled it to exchange the products of its factories for the food and raw material it needed. But the basis of that prosperity has been destroyed. Europe no longer enjoys industrial supremacy. The traditional sources of much of its food have been cut off or diverted and increasing difficulties lie in the way of the exchange of Europe's industrial products for the food it must have if its people are not to die.

From the standpoint of sheer economics, both short-term and long-term, the situation is certainly grim enough, but it is further complicated by psychological and social factors. The scars of the war show plainly. On the Continent, in the city streets the pock-marked walls of buildings show where bullets have spattered. Perhaps there will be a little tablet nearby saying, in effect, "Here a hero died for his country", or perhaps it will merely be left to some passerby to say, "Here the Gestapo took some people from their homes one night and shot them." Everywhere there are reminders of fear and hate and death.

In Great Britain one can sense the weariness left by years of desperate effort, nights of terror and danger and the long dreary time of scanty food, shabby clothes and only work, work, work, with nothing to show for it. Nothing, that is, except a victory which has thus far failed to bring the freedom from want and freedom from fear that the common man was promised.

In France there is a sense of frustration left by years of occupation, of political division and wounded national pride.

Intimately associated with this universal feeling of frustration in victory is the growing but disagreeable realization that Europe cannot revive without Germany. Save possibly in England there is nothing but hatred and unforgiveness toward Germany in Europe, and yet it is becoming plain that the idea of reducing Germany to a level of agrarian subsistence will not work. The most important single industrial region in Europe, the Ruhr, is currently producing virtually no steel and only half its pre-war output of coal. Europe needs the coal and steel which the Ruhr can produce and which only the Ruhr can produce quickly enough. Europe needs to revive at least some of the old lanes of trade with Germany in order that that country may contribute to European recovery instead of acting as a continuing drain upon European strength.

Beyond the psychological scars left by the war, there is the continuing influence of the Great Depression and the world-wide trend toward Socialism which it evoked. Obviously from the standpoint of simple economics the situation in which Western Europe finds itself today is one that calls for harder work than ever before, and yet, quite understandably, great masses of the people feel that victory should have brought them the right not to harder work and a lower standard of living but to less work and a more abundant life.

For many years Great Britain's Socialist labor leaders have been telling their followers that most of the evils of the modern world were due to the shortcomings of capitalism. They have promised that, under Socialism, poverty and hardship would disappear, the danger of war would vanish and everyone, except possibly the wicked bankers, would work less and have more.

When the war came to England in 1939 there were able-bodied men

40 years old in that country who had never had a job. Fear of unemployment had become deeply ingrained in the working people and a philosophy of go slow and stretch out the work in order to make as many jobs as possible was fixed in the mind of labor.

The repercussions upon Great Britain of our own New Deal, with its emphasis upon curtailed production, shorter hours and redistribution of purchasing power, only served to strengthen this point of view in Britain. During the war opinion seems to have crystallized among the majority of the British people. They wanted social security from the cradle to the grave, large-scale public housing, nationalization of key industries, a five-day week, more leisure, better living, better education for their children, better working conditions. Moreover, they were bitter against a Tory party that was tarred with the brush of appeasement and which had been in office during the critical years when Hitler rose to power and when a war that might have been prevented was allowed to become inevitable. So the British people elected a Socialist government; but the dreams and promises have turned to bitterness. Less work still stubbornly produces less coal.

Unhappily the average Briton still does not grasp the gravity of his country's position, nor has it yet been made clear to him by Britain's leaders. There is endless talk of a "dollar shortage," the implied suggestion being that this is due to American parsimony. There is much brave talk about the need for "pulling in our belts" and going on shorter rations and giving up what few pleasures remain in the dreary life of the average Englishman today.

Actually, of course, there is no shortage of dollars. There is a great plethora of dollars in the world. What is short is goods and the

production of goods. What is needed is more work, increased efficiency, a greater willingness to face facts no matter how disagreeable. And it is a fact also that pulling in one's belt and reducing one's already scant food ration, however praiseworthy, will not of themselves produce one additional lump of coal.

There are men in Europe, as well as here, who argue that in the light of all these adverse factors it would have been better if the United States had limited its post-war aid and that it will be better if all future aid is denied. Stripped to its essentials the basic argument of these men is this: That the fundamental problem of Europe is poverty, that poverty can only be cured by hard work, that men will only work hard if the lash of hunger is laid upon their backs.

Those who reason this way are, of course, men of extremely conservative social and economic views.. Curiously enough they find themselves in agreement with the Communists, who also are opposed to American aid. The Communist argument is that American aid means enslavement to the dollar and the exploitation of Europe by the predatory economic imperialists of Wall Street.

There are other men who argue against any further aid to Europe on such grounds as the following: That we cannot afford to feed the world; that our aid will only encourage European countries to defer the fundamental adjustments they must ultimately make; that our so-called loans to Europe are really gifts that will never be repaid; that by financing large exports through government loans we are dangerously adding to our inflation here at home; that it is a delusion to think we can prevent the spread of Communism by making loans to Socialist governments; that the billions already spent have produced



only demands for more billions; and that in the end we shall have little gratitude but probably much abuse.

There is a good deal of disagreeable truth in these arguments, but it is not the whole truth. Europe is in a most difficult and unhappy position and Europe is not in all respects behaving very well. Yet it is not Europe alone that has some difficult decisions to make. We also must choose between alternatives, neither of which is very attractive.

On the one hand, we can help Europe through the difficult period of recovery and re-adjustment which it faces. This involves many of the drawbacks I have already mentioned. On the other hand, we can leave Europe to struggle alone. In this case we will certainly condemn large numbers of our comrades in arms to literal starvation; we shall certainly face conditions of financial crisis and economic depression over a wide and critical section of the world; we shall risk the plunging of all Europe into such chaos and misery as may lead to a political and social upheaval of lasting significance.

We would be foolish to take such a risk in the world as it exists today. We must help to bring about an orderly recovery in Western Europe. But in giving this help, it seems to me, our country might well take the attitude of a prudent banker who is consciously making a rescue loan. Such a loan is not likely to be either unlimited or unconditional. It should not be necessary to attempt to tell our late allies how they must run their internal affairs, but we should certainly ask in broad terms that they show satisfactory plans and progress in bringing about expanded production and in restoring financial stability. Our people will require, and rightly so, that their aid to the nations of Europe achieve its purpose and they will expect these

nations to undertake such specific programs of self-help and reform as will bring success to the whole crucial enterprise. For our own part we shall need to show the qualities that made our nation great: Courage and common sense and the willingness to lend a helping hand to those who will help themselves.

It is not too much to say that having fought a war to preserve human freedom in the world, if we now pull back from Britain, France and the rest of Western Europe, we may see that freedom for which we fought strangled before our eyes. It must not be forgotten that when men are faced with hunger and privation they have been known to barter freedom for the promise of security even though the promise is false.

When the choice is stripped to its essentials, there is only one decision. In a world still reeling and gasping from a five year struggle to break the stranglehold of tyranny we are the one strong, freedom-loving nation. We cannot now abandon those whom we helped to rescue from one dictatorship to allow them to fall helpless victims of another.