

Speech delivered before  
Foreign Policy Association  
Cincinnati, Ohio  
October 9, 1947

### GERMANY'S ROLE IN EUROPEAN RECONSTRUCTION

Economic recovery of Europe is a prerequisite of economic stability of the world. Economic stability is a prerequisite of peace. Economic chaos leads to war.

All short-range measures in the field of international economics, sometimes apparently contradicting each other, must be related to our long-range policy: the maintenance of economic stability in this country and abroad, with one single aim--peace in the world.

Our own economy is directly related to what happens in Europe. We must enable Europe to produce and exchange goods. We must help rebuild a sound system of foreign trade, in the interest of both the United States and the rest of the world, based upon the mutual exchange of goods and services and the unrestricted flow of means of payments.

Meanwhile, however, we must weather a transition period. At present, our export surplus is abnormally large: it will have to be curtailed--some day. In the future, increased imports of goods and services will supply other countries with dollars. Until then, foreign purchases of certain scarce goods affect our price structure. The world is in short supply of our goods, and of the means of payments for our goods. In this period of transition we must be concerned primarily with forestalling starvation and unrest in the world, in order to make possible in the long run normal economic conditions and stable economic relations between nations.

This general aim has been the reason for a second stage in our policy in occupied Germany. During the war, we could not relax our efforts. We had to win the war--regardless of the economic consequences of the destruction of Germany. The first directive sent to General Eisenhower immediately before the end of hostilities in Germany expressly forbade the occupation authorities to be guided by the interests of German rehabilitation. By its own terms, however, that directive--commonly known as JCS-1067--was only for "the initial post-defeat period" and never was intended to be a long range policy. The Potsdam Agreement, concluded three months later, softened that injunction. A more penetrating study of the complex relations of European political and economic problems has convinced most American experts and observers of the necessity of reintegrating the German economy into the European framework. Former Secretary Eyrnes at Stuttgart, Germany, in September 1946 gave a clear public expression to this conviction. He concluded his historic speech with this statement: "The American people want to help the German people to win their way back to an honorable place among the free and peace-loving nations of the world." This conviction resulted in the directive issued to the Military Governor of the U. S. zone of occupation in July 1947. From that time on, American policy has placed increasing emphasis on Germany's importance for the rehabilitation of the rest of Europe.

This shift in emphasis is not without some danger. Many European nations are apprehensive lest we go too far in aiding Germany. Such a fear is perfectly understandable in view of Germany's aggressive war record. It is exploited, however, by anti-American propaganda, which proclaims daily that the American interest in Germany is a serious threat to the safety of the rest of Europe. People are told that American imperialists and capitalists want to rebuild Germany in order to use a reconditioned German war machine for dreams of world domination similar to those of Nazism. We can dismiss these charges as senseless but we cannot dismiss the genuine anxiety of many Frenchmen, Belgians, and Central Europeans that we may further German rehabilitation at the expense of the recovery of the rest of Europe and that unwittingly we may help to rebuild a dangerous German war potential. In recent weeks such concern has been expressed not only by responsible European statesmen but also by serious American observers like former Under Secretary of State Sumner Welles. A continuous discussion of the German problem therefore is necessary in order to refute the arguments against our participation in German rehabilitation, and, on the other hand, to define the limits which this participation should not exceed.

First of all we may concede that several reasons which sometimes are advanced in support of this second stage in our policy cannot stand up to serious examination. It has been said that a harsh policy toward Germany would be inconsistent with our ideas of international justice. This argument overlooks the fact that whatever the Germans have suffered for the last two and one-half years is nothing as compared to the suffering they brought to the rest of Europe, and that morally the victims of German aggression certainly have a better right to our assistance than the Germans. Secondly, some people hope that the policy will lead immediately to a lowering of the cost of occupation. We shall see presently that this will not be the case.

Thirdly, some business interests--in the words of Mr. Welles--expect fat profits from a highly industrialized Germany. These expectations certainly will not be realized: even with all possible assistance, for many years to come Germany will remain too poor to afford the importation of American semi-luxuries. Moreover, the German economy is largely competitive with the American, and the reconstruction of the German industry is just as likely to diminish as to increase the profits of American industrialists. Apart from these considerations, the expenditure of huge amounts of public funds in order to increase the chances for profits of a few exporters or investors certainly would not be justified.

Finally, some people cherish the hope that a rehabilitated Germany could be used as a buffer state against the Soviet Union. These people may well be mistaken. It is true that today most Germans are emphatically anti-Russian, but this attitude need not endure. If the Soviet Government wants to gain the good will of Germany, it need only offer to the Germans sufficient political and economic concessions. For instance, as Walter Lippman recently pointed out, we could never match the territorial and other advantages that Russia, as the supreme power in Eastern Europe, could effectively promise to the Germans at the expense of its Eastern European satellites. In such a case, any reliance upon Germany as an ally against Russia would be ill-founded to say the least.

Thus we are willing to agree with many of the arguments that have been brought forth against our occupation policy. These arguments, however, are not decisive because they overlook the essential point: unless Germany is economically rehabilitated, Western Europe cannot attain economic stability. In order to refute the arguments against our efforts toward the rehabilitation of Germany, we have to show that this rehabilitation is necessary for the recovery of Western Europe.

Let me emphasize the fact that I speak to German economic recovery only as it plays an essential part in the recovery of the economy of Europe.

The economic interrelation of Germany and Western Europe is based upon Germany as a source of supply and Germany as a market. Under the present conditions of scarcity, the first point is far more important than the second. To a large extent Germany has to supply the rest of Europe with two commodities of primary importance: coal and steel products. Most of the exportable coal comes from the Ruhr district, which forms part of the British zone of occupation. In peacetime this district exported as much as three million tons per month, mainly to Western Europe. Ruhr coal was essential for the heavy industries in France, Belgium, Luxembourg, the Netherlands, and Sweden.

Hard coal production in the areas that today form the British zone of occupation dropped from 117 million tons in 1936 to 54 million tons in 1946. After establishing a system of substantial incentives, including a daily food ration to the Ruhr miners of 4,000 calories as compared with a normal consumer's ration of 1,550 calories, which made them by far the best supplied part of the German population, production increased in July 1947 to an annual rate of 72 million tons. The deficit as compared to 1936 still amounts to about 45 million tons annually. These 45 million tons are a principal reason for the present plight not only of Germany but also of the industrial countries of Western Europe. They are the bottleneck for the rehabilitation of transportation and for the production of steel and machinery. The lack of transportation facilities and machinery retards the reconstruction of all other industrial enterprises in Europe. It may even be said that these 45 million tons are also one of the main reasons for the present world-wide scarcity of foodstuffs. The European food deficit is largely due to the lack of fertilizer, and the lack of artificial fertilizer in turn is due to the scarcity of coal. Similarly, the lack of coal hampers the production of textiles and other scarce consumer goods.

A less direct effect of the lack of Ruhr coal is the deterioration in the international financial position of the United Kingdom. If industrial production in continental Europe had reached a higher level, the United Kingdom would have been able to purchase more of its necessary imports in continental Europe. In that case, it would have experienced less of a drain upon its dollar resources and perhaps would have been in a better position to maintain the convertibility of sterling.

German steel and steel products are equally indispensable to the rest of Europe. German machinery always has been extensively used in most industries of Western and Central Europe. Half of all industrial enterprises in the Netherlands, for instance, are equipped with German machine

tools. During the war and postwar years, many machines were destroyed, and the rest has deteriorated. Their owners urgently need spare parts for repairs and new units for reconstruction and expansion. It is not surprising, therefore, that a recent statement by the Netherlands Government asserted that "the security and welfare of the Kingdom are in a high degree dependent on the prosperity of Germany . . . and the Netherlands is vitally concerned in the decisions which are ultimately to be made by the Allies with regard to the future of the German economy." The shut-down of the German machine industry has prevented the mines in Polish Silesia from working at capacity, hampered transportation in countries as far apart as Austria and the Low Countries, and made it impossible for many other industrial nations to reach their prewar level of production. It has thus delayed the recovery of all of Europe.

The Committee of European Economic Reconstruction, which was appointed by the Western European nations in response to the historic appeal by Secretary Marshall, clearly has recognized these facts. Although many of the nations represented on the Committee had every reason to feel extremely hostile toward Germany, the Committee report emphasizes again and again the need for an increase in the production of German coal and steel. It bemoans the "continued inability of the German economy to supply the coal and other products upon which so much of Europe's economic life depends." It proposes an increase in the coal production of the combined U.S.-U.K. zones of Germany by 60 million tons and an increase in the steel production of these zones by 7.2 million tons annually over and above the present level. Finally, it states expressly that a large part of Western Europe's import requirements for steel products should be met from these zones. The proposal for the huge increase in steel output is particularly remarkable in view of the fact that hitherto the French Government, whose delegates played a leading role in drafting the report of the Committee, had sharply objected to American and British proposals for large-scale expansion of German steel production. This change in attitude shows the interdependence of economic and political considerations in all European problems. Deep-seated political animosities can be overcome once it is understood how one country benefits from the improvement in the economic status of another country.

The increase in German coal and steel production, however, cannot be accomplished without an increase in total production. Ruhr coal output is so much lower than before the war mainly for two reasons, namely the lowered productivity of labor caused primarily by lack of sufficient food and the deterioration in mine equipment. The miners, despite the recent improvement of the economic situation, still cannot hope to receive for their increased wages a substantially increased volume of food, other consumer goods, and housing accommodations; they have little personal incentive, therefore, to do their utmost in the mines. Moreover, after many years of insufficient nutrition, defective housing, and lack of most amenities of life, they are neither physically nor psychologically able to work as hard as before the war. Thus any large-scale rise in Ruhr production will be possible only if sufficient food is supplied and if the amount of consumer goods available to the miners is substantially increased. Such an increase in turn depends upon a rise in the German production of food and consumer goods since continued importation of the bulk of such goods would place an unbearable stress on the German foreign exchange position. Farmers and industrial workers who must produce the food and consumer goods needed by

the miners, also require more goods for themselves as an incentive for harder work. It would be impossible, therefore, to attempt the regeneration of one particular branch of the German economy, such as coal mining, without being prepared to help all other industries that participate in the production of consumer goods.

The second reason for the low output of the Ruhr mines is the obsolescence of the technical equipment. Since the beginning of the war and especially since the end of hostilities, mine machinery has not been adequately renewed. More important still, transportation equipment has been permitted to deteriorate so that the transportation of coal has become almost as much of a problem as its production in the mines. These difficulties can be remedied only by making available large quantities of steel and steel products to those industries that produce the necessary equipment. For this reason an increase in the output of coal requires not only the revival of the German consumer goods industries but also the reconstruction of the German heavy industries.

Steel production hitherto has been hampered by difficulties with labor, equipment, and transportation similar to those encountered in coal mining, and especially by the lack of coal. Moreover, the so-called level-of-industry plan, adopted in the spring of 1946 by the four occupying powers, limited steel production in all of Germany to 5.8 million tons, or about half the amount that today is being contemplated for the combined U.S.-U.K. zones alone. Although this limitation did not have any direct effect since actual production remained far below the permitted level, it probably had an indirect influence by making managers and workers despair of the future of the steel industry. An attitude of "what's the use", fostered by the strict limitations of the level-of-industry plan, certainly contributed to the reduction in the efficiency of German labor.

The recovery of the German industrial system also is necessary for the solution of the second problem, namely, the restoration of Germany as a market for the products of other nations. Germany needs large quantities of foodstuffs, raw materials, and other producers' goods. At present, it is unable to pay for any substantial amount of imports. Shipments that the occupation authorities in the combined U.S.-U.K. zones consider absolutely necessary for the prevention of disease and unrest have to be financed by advances from the occupying powers. In the first six months of 1946, such shipments into the combined zone were valued at \$299 million, including \$274 million of foodstuffs, \$19 million of fertilizer, and \$6 million of oil products. In contrast, commercial imports totaled only \$17 million. The value of food imports, most of which came from the United States, certainly looks very large, but it was just sufficient to keep the German people on a semi-starvation diet of about 1,500 calories a day for the normal urban consumer--one-third less than the amount considered a minimum subsistence level by the United Nations Food and Agricultural Organization. If we want to restore a level of nutrition that enables the German worker to reach his prewar efficiency, food imports will have to be increased rather than reduced even if the productivity of German agriculture can be raised to its prewar level. Obviously, these imports cannot be financed forever by the occupying powers. Moreover, Germany needs raw materials and other producers' goods in such quantities that their value should at least equal that of food

imports. Exports of coal and crude steel, significant as they will be, can cover only a fraction of that value. Germany must be able to pay for its imports by exporting finished industrial products, just as it did before the war.

The future need to export will be even greater than before the war, because of the necessity for imports of foodstuffs and raw materials previously obtained from those parts of the Reich which now are under Polish administration. Moreover, a larger proportion of imports will have to come from the sterling and dollar areas, at least as long as the grain and timber surpluses of Eastern Europe are withheld from western markets. Fortunately, the highest valued types of exports from Western Germany, like special machinery, precision instruments, and chemicals traditionally went to the West. It is true that as long as the general scarcity of dollars continues Germany too will be affected. The dollar scarcity in Europe, however, will be much smaller if Germany is reconstructed because Western Europe will obtain goods from Germany which otherwise would have to be purchased from the United States for dollars.

At present, imports of raw materials and other producers' goods are negligible because they are not financed by the governments of the occupying powers, but handled on a commercial basis. They cannot, therefore, exceed the sum of exports and commercial credits. During the first six months of 1947, exports from the combined zones totaled only \$66 million; they consisted mostly of coal and some other raw materials like timber and potash, rather than of industrial products which before the war formed the bulk of German exports. So far, it has been possible to negotiate credits only with the help of government institutions, such as the Export-Import Bank, the U. S. Commercial Company, and the Commodity Credit Corporation, and their sum has not exceeded \$60 million. Moreover, most of the credits have taken the form of processing arrangements, German manufacturers receiving raw materials such as cotton, and paying for them out of the proceeds of the exportation of the finished products. Such arrangements are feasible mainly in some consumer goods industries, especially textiles, and not readily applicable to the heavy industries which form the basis of the German economy. Neither exports nor commercial credits, however, can be expanded substantially as long as domestic industrial production is hampered by the lack of imported raw materials and producer goods. Obviously, this vicious circle must be broken. At present, the bizonal Joint Export-Import Agency has at its disposal a fund equal to more than \$100 million, accumulated out of the proceeds of past exports and of certain former German assets made available to the Allies by the Swedish Government on the basis of an agreement concluded in 1946. This relatively small fund is to be used for initial imports that will stimulate the production of export goods, but two-thirds of it consists of sterling and therefore is available for international payments only within the sterling area, which at present can supply only limited quantities of necessary commodities. Accordingly, the economy of the combined zones is confronted with the problem of finding additional sums in dollars in order to finance adequate imports of goods other than minimum food requirements.

The extent of our contribution needed for the recovery of Germany thus becomes painfully clear: we must not only continue and if possible, in the light of world conditions and the needs of liberated countries, increase our exports of foodstuffs, but we must also make advances of one

kind or another for the importation of raw materials and equipment. Moreover, as far as the materials have to be purchased in the dollar area, we are confronted with the fact that the United Kingdom has made it known that it wishes to be relieved from the burden of having to use its scarce dollar resources for German rehabilitation. The cost of the German occupation to be borne by the United States during the next few years certainly will be higher rather than lower in comparison with 1946-47.

The report of the Paris Conference estimates the foreign trade deficit of the combined U.S.-U.K. zones in relation to the dollar area alone at \$1.15 billion for 1948. This would be almost twice the total deficit of the zones, as estimated for the year 1947 at the time of the bizonal agreement in December 1946. Only part of that increase, however, would be caused by the proposed extension of the reconstruction program: a large part will be due to the rise in American prices, especially for foodstuffs, and another part to the lag in the production of export goods caused by the catastrophic weather of the last winter. The sum is very large, but it is only one-seventh of the estimated total deficit of Western Europe, exactly corresponding to the proportion of the population of the zones to the total population of Western Europe. Since Germany's reconstruction is far less advanced than that of any other Western European nation, the estimate of German needs does not appear excessive.

The way for the implementation of our policy has been paved by the joint U.S.-U.K. decisions that were taken in the past weeks. We have raised the permissible level of industry for the combined zones approximately to the 1936 figures so that there will be no artificial limitation on the capacity of the German industries the rehabilitation of which we shall deem essential. We also have secured an equal voice in the management of the Ruhr mines. In addition, discussions are about to commence on the problem of sharing the occupation costs for the coming year between the United States and the United Kingdom. They will determine how far the present agreement, under which each power defrays half of the total, should be amended, at least as far as dollar payments are concerned.

All our efforts toward a solution of the German economic problem will be in vain, however, if we do not allay the fears of our Allies that we are putting the interests of Germany ahead of those of our friends. Otherwise, we might lose, as a result of growing anxiety and animosity in the rest of Europe, whatever we might gain from German rehabilitation. Fortunately, the program adopted in Paris in response to the appeal of Secretary Marshall promises the reconciliation of viewpoints. The plans adopted in Paris show what commodities Western Europe needs. We also know what commodities the German economy can produce if we are willing to render initial assistance. For the reasons which we discussed previously, it would not do to concentrate exclusively upon the reconstruction of German export industries since all branches of the German economy are needed for the efficient operation of the export industries. Within these limitations, however, we certainly shall put emphasis upon the development of those German industries that produce the goods needed in Western Europe. Obviously, it is easier to propose these principles than to execute them. It will be necessary to reconcile the need for coal, steel, and other goods for German domestic consumption with the equally pressing needs for these commodities on the part of other nations. Last Spring, a

compromise was reached with the French, promising them an increased percentage of Ruhr coal in case of an increase in output. The report of the Paris Conference shows that a similar solution is acceptable to the Western European nations in the matter of Ruhr steel production. This indicates that working compromises also can be reached for other heavy industries.

In this connection, I am fully aware of the fact that our allies are interested not only in present allocations of increased German production but likewise interested in future long-term allocations which relate to their long-range planning for the reconstruction of their economies and the maintenance of economic stability at a high level. This is a proper concern of our allies and should not be overlooked. I feel certain it will not be overlooked.

The reintegration of the German economy into the European framework will pay, in the long run, for the financial burdens in the form of food and other supplies which we have to assume during these coming years. In this respect, the fact that the German economy is competitive with the American paradoxically will prove to be an advantage rather than a shortcoming. Whatever Germany can furnish to Western Europe need not be furnished by the United States. Since Western Europe suffers from a scarcity of dollars, additional exports to Western Europe would have to be made largely on the basis of advances, the repayment of which would pose difficult questions. It will be cheaper for us to furnish foodstuffs and raw materials to Germany rather than more expensive finished goods to Western Europe. In this respect, the reconstruction of Germany will directly benefit the financial position of the United States.

German economic recovery and therefore European recovery, however, can not be attained by one step or gesture. It requires, first, an attitude. That attitude is that European economic recovery is necessary---to Europe and to us. Second, it requires a realization that the alternative is chaos. Third, it is evident to me that recovery in Europe is a gradual process in which we play an important part.

If we succeed in our rehabilitation program with proper safeguards against German rearmament, Germany will plan again the economic role to which it is predestined by its natural resources and the skill of its workers, and the cause of intra-European economic cooperation will be materially advanced. Thus we are led back to our first premise. Our present stage of economic policy in Germany is not dictated by soft hearts or short memories, and it is not destined to give German recovery any priority over and above the rehabilitation of the rest of Europe. On the contrary, it is meant to make possible economic stability in all of Europe, and thus to further the maintenance of our own economic stability at a high level, and--most important of all--it is meant to promote world peace!