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## AMERICA'S ROLE IN THE INTERNATIONAL ECONOMIC SITUATION

I shall speak on the problem of European recovery and on the role of the United States in assisting Europe to return to a self-supporting basis. As you all know, this country is now engaged in a great European Recovery Program, involving the expenditure of billions of dollars. This program, which forms such an important part of our present foreign policy, is based not only on humanitarian considerations but on the conviction, which I heartily share, that European recovery is essential to world stability and to the attainment of an enduring peace.

In speaking to you about European economic problems, I may refer to my personal experience in Europe, both during the war and in 1946-47. When I was sent to western Europe in 1944, it was clear that the recovery of the war-ravaged countries would be a long and painful process; but, flushed with the recent Allied victories, most leaders were more optimistic than the economic conditions warranted. Two years later, this optimism in many places had given way to despair. It was realized that even the progress already made could not be maintained without continued large scale assistance from the United States. Out of this despair was born the conviction of the inter-dependence of the economic interests of Europe and the United States, and thus the path was cleared for the European Recovery Program.

The nature of Europe's present economic crisis is not difficult to understand, but it requires a review of a few facts concerning the pre-war situation. Before the war, the prosperity of European countries, like that of most other advanced nations, was highly dependent upon foreign trade. By specializing on the kinds of production that each country could perform efficiently, and obtaining other goods through the channels of international trade, European countries were able to achieve much higher standards of living than would have been possible had each country attempted to be self-sufficient. It should be emphasized, however, that while the European countries were not self-sufficient, they were self-supporting. They paid for their purchases of goods and services from abroad mainly in two ways: first, with the earnings from their exports of goods and services, and, second, with the income from investments which they had made overseas. Thus their purchases from abroad were covered by their earnings from abroad.

The effect of the war was to alter this situation profoundly. In the first place, the war brought about appalling destruction of factory buildings and equipment and of transportation facilities, including merchant fleets. The effect of this was greatly to reduce the capacity to export goods and services. In the second place, a large part of the foreign investments of European countries was destroyed by enemy action or

had to be sold to meet the cost of the war. Thus these countries lost an important source of earnings that had gradually been built up during the course of centuries.

Deprived of a large proportion of their normal external earning power, European countries at the end of the war were confronted with a desperate situation. In the absence of generous and prompt assistance from abroad, widespread starvation would have been inevitable and on a scale which would have quickly led to revolutionary political changes. Fortunately, emergency relief assistance was immediately forthcoming on an extensive scale. Through UNRRA (the United Nations Relief and Rehabilitation Administration) and other agencies, the United States Government poured billions of dollars of relief expenditures into Europe in order to alleviate the acute distress occasioned by the war.

It was clear from the outset, however, that Europe's problems could not be solved by mere relief measures. The sharp disparity between import requirements and earning capacity could be narrowed only by measures designed to increase the ability of European countries to produce and to export. With foreign investments largely dissipated as a result of the war, it was clear that the volume of European exports would have to be raised to a level much above that prevailing before the war if pre-war living standards were to be restored on a self-sustaining basis. The necessary increase in production and exports could be attained only by measures of a recovery rather than a relief nature -- that is to say, by measures intended not only to restore but to improve the European productive machine. To accomplish this, however, required outside help. Without outside assistance, European labor and resources would have been required almost entirely for meeting the immediate urgent needs of consumption, and could hardly have been used for investment purposes, no matter how productive, which would not yield an immediate return.

At the end of the war, production in Europe was far below the pre-war level. For Europe as a whole (excluding the U.S.S.R.), industrial production in the first quarter of 1946 was at only 68 per cent of the 1938 level, and in the case of certain countries production was much lower than this average. In Italy, for example, industrial production was at not much more than a third of the 1938 level, while in Germany industrial production was running at only about a fifth of the pre-war rate.

In the three-year period since the end of the war, Europe has made a dramatic recovery in production. In the first quarter of 1948, European industrial production had almost recovered to the level of 1938, and if we exclude Germany, where recovery has been conspicuously slow, European production was actually above the pre-war level.

This does not mean that European consumption has returned to pre-war standards. In the case of food consumption, for example, the average person in western Europe at the present time is eating 25 per cent less sugar, 30 per cent less meat, and 30 per cent less fats than before the war. The reason that overall consumption has not kept pace with overall production is that a large fraction of current production is being devoted, as it should be, to restoring and improving the productive capacity of Europe. Moreover, for reasons which I have already pointed out, production will have to rise to a level much above pre-war if Europe is again to become self-supporting.

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A problem very important in connection with European recovery has been the notably slow recovery of Germany. At the present time, industrial production in western Germany is at less than half the pre-war level. The drag on the rest of Europe resulting from this state of affairs is so important that I must give this matter special attention.

There may be some among you who deplore any help given to Germany at a time when the victims of German aggression still need all the assistance we can afford to grant. You have probably heard the propaganda that charges the United States with deliberately favoring the recovery of Germany, rather than the rehabilitation of the victims of German aggression, in order to prepare for a future alliance between the United States and a revitalized German Empire.

I need hardly say that no responsible person in the United States has ever had such intention--least of all the men who have initiated and now administer the European Recovery Program. The main reason why the European Recovery Program also embraces western Germany is the undeniable fact that rehabilitation of the other European nations would be impossible without the recovery of production in Germany. Western Europe must exchange large quantities of exportable surpluses for German coal, steel, machinery, and chemicals which cannot be purchased from any other source. This exchange, which before the war was one of the strongest pillars of European foreign trade, must be resumed now and not in the distant future. Western Europe needs these German products for the reconstruction of its own system of production, and it cannot wait for its own heavy industries to expand to such an extent as to make imports from Germany unnecessary. The United States simply cannot spare the additional quantities that western Europe would require if it were deprived of imports from Germany. Moreover, the United States cannot increase its grants to western Europe by the amount that would be required if Germany did not again become a market for western Europe's exportable surplus.

In 1947, trade between Europe and overseas countries was approximately back to normal. Intra-European trade, excluding Germany, had also made appreciable progress. The stagnation in the trade between western Europe and Germany, however, was a major cause of the unsatisfactory state of overall recovery in western Europe. The redevelopment of that trade is one of the most important contributions that can be made to the rehabilitation of the victims of German aggression. In this connection, we have implemented our assistance to Germany by the recent currency reform which will greatly assist in directing German manpower and natural resources into useful production. Moreover, we insist upon developing German production in such manner that Germany's contribution to European recovery is maximized, while at the same time making sure that no future German government can use its reconstructed economy for purposes of aggression. We insist, therefore, upon continued German exports of coal and timber to western Europe, despite German domestic need of these vital raw materials; and we insist upon the removal of the remainder of the German war industries and the limitation of German heavy industrial capacity. With these safeguards, the amount spent for German recovery will be more useful to the rest of Europe than would a much larger amount devoted to additional direct assistance to the victims of German aggression.

Another factor retarding European recovery has been the marked decline in trade between western and eastern Europe. Normally, eastern



Europe produces a surplus of foodstuffs and certain raw materials, such as timber, which it exchanges for the industrial products of the west. The importance of reviving this trade, which was highly beneficial to both regions, was recognized from the outset by the framers of the European Recovery Program, and from the very beginning eastern Europe has been invited to participate in the program. The Soviet Union not only declined that offer, but also forced the other eastern European nations - some of which were eager to participate - to remain outside. This failure to cooperate harms the eastern European countries more than the west. Nevertheless, the western nations do not intend to follow the Soviet Union in its attempt to forswear economic rationality for reasons of ideology. We have continued our endeavor to expand trade with the east, and the Administrator of the recovery program has made available funds for the purchase of scarce commodities in eastern Europe - such as Polish coal for Austria. In this way, the eastern European nations derive some benefits from the European Recovery Program, and there is reason to believe that they are beginning to realize the loss they were made to suffer when they were prevented from becoming full-fledged partners in this great enterprise.

The present European Recovery Program represents a unified approach to the overall problems of Europe rather than the vastly more expensive and wasteful method of attempting to deal with the problems of individual countries on a piecemeal basis. After careful and exhaustive study by the technical staffs of the United States Government, Congress has authorized approximately \$5 billion of aid to Europe for the first year of the recovery program. A program of four and a quarter years is contemplated, although this is subject to annual review by Congress. There have been tentative estimates that the total amount of aid needed over this period might amount to \$17 billion, but it is clear that estimates of European requirements more than a year or so in advance must be of an uncertain nature.

These are very large sums of money, and we have a right to expect that they will be used in the most effective possible manner. The United States simply cannot afford to extend assistance to Europe without receiving assurances that its contribution will be efficiently used for the purpose of European reconstruction and that the recipient nations will cooperate to the full extent of their capacity in achieving the purposes of the program.

In this connection, the Administrator of the program has concluded agreements under which all recipient nations will undertake very substantial obligations. These obligations include the stabilizing of their national budgets, their currencies, and their exchange rates. The European nations agree to reverse the pre-war trend toward economic isolation, to reduce trade barriers, and to cooperate in making efficient use of their combined resources so as to minimize their dependence on the United States. They agree to put at the disposal of the United States scarce strategic materials in reasonable quantities and at reasonable terms, and to permit access to their natural resources by American investors.

Finally, whenever the United States Government furnishes commodities or services on a grant basis, the participating countries agree to pay the value of these goods and services in local currency into special accounts. These sums will then be used for constructive purposes on the basis of agreements between the country involved and the Administrator of the program. Such purposes include expenditures for the development of new resources, as

well as retirement of currency or of government debt in order to put an end to inflation. In a number of cases, the amount in question will be a very substantial fraction of the country's total money supply. Thus, in these European countries, the Administrator will have the power to exercise a great constructive influence upon their financial situations.

While attention has been concentrated on Europe in recent months, the needs of other areas in the world have not been ignored. It has been intended that a substantial part of the dollars supplied to European countries under the European Recovery Program will be spent in Canada, Latin America, and other areas outside the United States. In this way, our aid to Europe will also serve to provide Canada and Latin America with dollars which they in turn can use to pay for goods they need from this country. In addition, the Export-Import Bank and the International Bank for Reconstruction and Development are prepared to make loans to finance sound development projects in Latin America and other parts of the world.

It must be recognized that our foreign economic program in the aggregate imposes a very real burden upon the United States - a financial burden upon our Federal budget and an economic burden upon our people who are called upon to export to foreign countries far more goods and services than they receive in exchange. The Administration's recommendations on foreign aid, however, were decided upon in the light of careful and comprehensive studies of our capacity to bear this burden. The conclusions to be drawn from these studies are that the amount of foreign aid contemplated for the coming year will not impose any greater drain upon United States resources than has occurred during the past year; that this drain will not unduly affect the standard of living of the American people; and that the inflationary impact can be held in check by appropriate domestic measures. The most important of these domestic measures is in the realm of budgetary policy; it is supremely important that Government expenditures, including those on foreign aid, be covered within a balanced budget. If this practice is followed, the purchasing power created by these expenditures will be withdrawn from the market through taxation. At the same time, in view of the inflationary pressures arising from domestic as well as foreign sources, it is important to carry out a monetary policy designed to restrain the expansion of bank credit. To achieve the proper combination of budgetary and monetary policies requires the close cooperation of the United States Treasury and the Federal Reserve System.

Cooperation is also required among all United States Government departments and agencies concerned with foreign economic policy. In order to coordinate the domestic and international financial policies of the United States, Congress in 1945 created the National Advisory Council on International Monetary and Financial Problems. This Council consists of the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Trustees of the Export-Import Bank, and now, also, the Administrator of the European Recovery Program. Since its creation, the Council has played an active part in the determination of international economic policy, and insures consistency of action on the part of all government agencies dealing with foreign financial matters. It also directs the votes of our representatives in the International Monetary Fund, which is concerned with international exchange-rate

policies, and in the International Bank for Reconstruction and Development. Finally since the inauguration of the European Recovery Program, the Council has given advice to the Administrator of the Program. In all these ways, the Council attempts to make certain that our domestic and international policies are effectively geared together in a manner designed not only to insure the execution of our international obligations but to insure that our international actions do not threaten the stability of our own economic system.

While the cost of our foreign economic program is not to be lightly dismissed and represents a substantial measure of genuine sacrifice, it is small indeed compared to the cost of the alternative. If we should refuse to extend assistance to foreign countries in critical need, we would have to count on the likelihood of future developments of the most sinister character. We would have to expect revolutionary economic and political changes throughout the world. All hope of a democratic international order would be gone. War-racked countries in Europe, deprived of the hope of a return to tolerable living standards, would become the easy prey of regimes which promise economic security in exchange for the surrender of political freedom. Confronted with a world largely made up of dictatorships of the Left or Right, the United States would find itself isolated in a cold and hostile world. To maintain even a pretense of security under these conditions would require a level of expenditure for defense vastly greater than any now contemplated. Against such expenditure, the present sums spent for foreign recovery pale into virtual insignificance.

There are those who are aware that foreign aid is in the national interest but who nevertheless maintain that all that is needed is an emergency relief program entailing only a fraction of the cost of a genuine recovery program. But the only basis on which a relief program is less expensive than a recovery program is if we confine our attention to the immediate future. In the long run, a relief program is wasteful in the extreme, since it deals with symptoms rather than causes and does not contribute to the economic stability and eventual self-support of foreign countries.

Of course there is no certainty that our foreign recovery program will achieve all that we hope for it. Difficulties at present unforeseen may arise to disappoint and thwart us, but such possibilities should not blind us to the certainty of disaster if we fail to carry out the attempt. In this connection there is grave danger that we shall set too much store on the results achieved in the first year and, if these results are disappointing, take the shortsighted step of discontinuing or curtailing the program. In fact, the objectives sought by the program cannot possibly be achieved in one year, and to expect more than a sound beginning of the desired recovery would be to misunderstand the nature both of the problem and of the remedy. It should be remembered that after the first World War, which was vastly less destructive and disruptive than the recent conflict, it was not until 1925, or seven years after the defeat of Germany, that European economic activity was back to the pre-war level.

To a very large degree, the success of our foreign economic program will depend upon our own future actions. This applies not only to our actions directly relating to the program itself but to our decisions in the broader field of economic policy as a whole. For example, we cannot expect either the recovery of world trade or the recovery of Europe if, after



a short breathing spell, we attempt to re-instate high tariffs and thereby prevent Europe from selling the exports it must sell if it is to pay for the imports it needs and thus become self-supporting again. For Europe to pay its way, it is not enough that European countries are able to produce the necessary volume of exports; they must also be able to sell them. This means that other countries, including our own country, must be prepared to increase imports.

In the second place, we cannot expect Europe to achieve economic and political stability if our own economy, which is such an important segment of the world economy, is characterized by severe booms and depressions accompanied by equally drastic fluctuations in our purchases from abroad. Much depends on our ability to keep our own house in order - particularly on our ability to avoid the evils of Inflation and Depression. Inflation is the immediate problem, and this we must fight at the source, which means increased production of goods in short supply and reduction of excess purchasing power. There must be control over further expansion of credit, and certain direct controls may also be required to minimize the painful effects of inflation while we are attempting, by more fundamental measures, to deal with the causes of the problem.

To a degree which is almost impossible to exaggerate, the future depends on the type of leadership shown by this country. Of the major countries which were engaged in the recent conflict, our country was almost alone in being able to keep its productive capacity intact, and it has been estimated that the United States at present accounts for roughly half the world's industrial production. Thus, without asking for the role, we find ourselves catapulted into a position of great power and influence which carries with it a great responsibility both abroad and at home. In the sea of problems which now beset us and which lie ahead of us, it will be very difficult to steer a straight course, but we must remember that the stakes of our action are very great. Civilization itself may be in the balance. We must not fail.