

Statement to a Joint Meeting of the Senate Foreign Relations
and House Foreign Affairs Committee
November 10, 1947
Washington D.C.

Senator Vandenberg, Mr. Eaton, members of the committee, the Congress in the coming session will be called upon to make decisions which, although less spectacular and dramatic, will be no less important for the future of our country and the world than those of the war years. Your responsibilities as members of the committees directly concerned with our foreign relations are accordingly very great.

It appears unnecessary to elaborate for you on the somber picture of the world situation. You all, I am sure, are fully aware of its gravity and the immense responsibility which the course of events has placed upon our country.

The President will lay before the Congress the program of his administration for aid to Europe. My duty as Secretary of State is to present the reasons for this program, the reasons why I profoundly believe that the vital interest of the United States is directly involved.

In concentrating upon the problem of aid to Europe I do not ignore the fact that there are other areas of the world beset by economic problems of tremendous gravity. But the very magnitude of the world problem as a whole requires a careful direction of our assistance to the critical areas where it can be most immediately effective.

The need for our assistance in the European area is real and it is urgent. The report of the 16 nations represented on the Committee of European Economic Cooperation sets this forth, I think, in a convincing manner.¹

As a result of the war, the European community, which for centuries had been one of the most productive and, indeed, creative portions of the inhabited world, was left prostrate. This area, despite its diversity of national cultures and its series of internecine conflicts and wars, nonetheless enjoys a common heritage and a common civilization.

The war ended with the armies of the major allies meeting in the heart of this community. The policies of three of them have been directed to the restoration of that European community. It is now clear that only one power, the Soviet Union, does not for its own reasons share this aim.

We have become involved in two wars which have had their origins in the European Continent. The free peoples of Europe have fought two wars to prevent the forcible domination of their community by a single great power. Such domination would have inevitably menaced the stability and security of the world. To deny today

our interest in their ability to defend their own heritage would be to disclaim the efforts and sacrifices of two generations of Americans. We wish to see this community restored as one of the pillars of world security, in a position to renew its contribution to the world advancement of mankind and to the development of a world order based on law and respect for the individual.

The record of the endeavors of the United States Government to bring about a restoration of the whole of that European community is clear for all who wish to see. We must face the fact, however, that, despite our efforts, not all of the European nations have been left free to take their place in the community of which they form a natural part.

Thus the geographic scope of our recovery program is limited to those nations which are free to act in accordance with their national traditions and their own estimates of their national interests. If there is any doubt as to this situation, a glance at the present map of the European continent will provide the answer.

The present line of division in Europe is roughly the line upon which the Anglo-American armies coming from the west met those of the Soviet Union coming from the east. To the west of that line the nations of the continental European community have been grappling with the vast and difficult problem resulting from the war in conformity with their own national traditions without pressure or menace from the United States or Great Britain. Developments in the European countries to the east of that line bear the unmistakable imprint of an alien hand. All the nations of Europe, 16 in number, which were in a position to exercise free choice gave a prompt and energetic response to the simple suggestion made at Harvard on June 5 last and thereby an impressive demonstration of the continuing vitality of European civilization.

It would be well, therefore, to deal briefly with what the area encompassed by those 16 nations plus western Germany has meant to us and has meant to the world. This community before the war accounted for nearly one-half of the world's trade. They owned nearly two-thirds of the world's shipping. Their industrial production in terms of the basic commodities of coal, steel, and chemicals was before the war slightly greater than that of the United States. Their economy was highly integrated, each part depending upon the efficient working of the other.

I think that the figures cited will indicate the importance, even from a purely economic point of view, of the 16 nations who have joined together to develop a program for their mutual recovery. Their response to our suggestion of June 5 was a remarkable cooperative effort in a postwar world in which that element has hitherto been distressingly lacking.

Congress will wish to go into the objectives and the details of the European

recovery program at some length; but I feel that a brief summary of the tentative conclusions we have reached may serve the useful purpose of making clear the distinction between the long-range recovery program and the stop-gap recovery program, which we refer to as interim aid.

Long-term European recovery program: The Committee of European Economic Cooperation, meeting in Paris, produced a recovery program extending over 4 years. After the most careful checking, with the assistance of experts drawn from many governmental agencies, we have concluded that the Paris report correctly identifies the courses of action necessary to produce recovery and indicates an approximate order of magnitude of the cost for the full 4-year period.

I feel, however, that we can estimate with reasonable accuracy and assurance the sum required for the first stage of the recovery program, which will cover a 15-month period from April 1, 1948, to June 30, 1949.

Our tentative estimate of the cost, subject to final checks in the light of the Harriman report, is something under 1.5 billions for the last 3 months of the fiscal year 1948 and somewhat less than 6 billions for the fiscal year ending June 30, 1949. The findings contained in the Krug report, the Nourse report, and the Harriman report, together with the studies made by our interdepartmental committees, make it clear that a program in this order of magnitude can be safely undertaken by this country.ⁱⁱ I shall, therefore, recommend to the President of the United States support of the European recovery program and that an amount be appropriated for the 15-month period ending June 30, 1949.

It is of cardinal importance that an able and effective United States administration manage the funds which may be made available by the Congress. How best to achieve this and other essential elements of an organizational and administrative structure for the program of aid to European recovery is a matter which the Congress will wish to examine with great care. There are several important principles which I believe should determine the nature of this organization:

(a) **T**he operation of this program will in many ways define and express the foreign policy of the United States in the eyes of the European countries and the world. Therefore, the operation must fully accord with the foreign policy of the President as expressed through the Secretary of State.

(b) **T**he organization, if it is to afford successful and dynamic management to the complex recovery program, must be granted the widest practicable flexibility both in its operations and in the use of the funds placed at its disposal. The program of United States support will achieve its objective only if it is kept responsive to changing situations and varying supply conditions.

(c) **F**ull use should be made of the existing governmental agencies in carrying

out those parts of the program which fall within the scope of their present activities. The Departments of Commerce, Treasury, Agriculture, Interior, the National Military Establishment, and other agencies are well equipped to perform many of the necessary functions. The National Advisory Council and other competent interdepartmental agencies will have important parts to play.

(d) Strong central administrative direction is essential in a complex and varied program of this kind. There must be a high degree of integration in our operation, both in the United States and overseas. Unity of command, rather than diffusion of authority and responsibility is required.

The President will submit to the Congress his recommendations concerning the administration of the European recovery program.

There will be important functions for the United States to perform in Europe. Much of this work will be negotiation with governments of a nature constituting essentially in extension of the conduct of the entire relationship of the United States with the participating countries. Such matters are now handled through our Embassies and Legations and clearly should continue to be. There will be certain additional functions arising directly out of the operating program, such as screening of specific import requirements, arrangements for furnishing technical assistance, and other similar specialized activities which will require the appointment of qualified men who can devote their full attention to such matters. These men in their dealings with participating governments should work through our Ambassadors because it is essential to maintain a single channel of responsibility for United States negotiation with other governments.

For general coordination of the operations in Europe and for central representation in the continuing European organization which the participating countries have decided to establish, consideration should be given to the designation of a special United States representative for the European recovery program, with ambassadorial rank, appointed by the President with the advice and consent of the Senate.

As a general principle, aid should take the form of grants or loans, depending in each case upon the capacity of the particular country to repay and the effect which accumulation of additional external debt would have upon sustained recovery. The precise determination in each case should be made by the administrative agency with the advice of the Department of State and the National Advisory Council.ⁱⁱⁱ In practice it is felt that, where need is clearly demonstrated and where repayment cannot reasonably be expected, imports of supplies which are quickly consumed, such as food, fertilizer, and fuel, of indispensable items of capital equipment for immediate replacement and repair, and of essential raw materials should be financed by means of

grants.

Loans should be made to cover imports of capital equipment and raw materials which will directly produce the means of repayment and where such repayment can reasonably be expected. At the same time every encouragement should be given to early initiation of private financing so as to eliminate as far as possible the necessity for direct assistance from the United States Government. Use should also be made of the resources of the International Bank [for Reconstruction and Development (“World Bank”)] whenever in the opinion of the Bank the necessary and appropriate conditions for loans can be met.

It is obvious that the basic responsibility for European recovery rests on the European countries themselves. However, this Government must have assurance that the aid it provides is effectively utilized for the achievement of European recovery as rapidly as possible.

It is contemplated that, to this end, bilateral agreements will be negotiated between the United States and each of the countries participating in the recovery program, setting forth the reciprocal undertaking relating to American assistance. These agreements will vary in form and content as between countries, depending upon the nature of the aid to be furnished and the conditions deemed important in each case.

The commitments should include undertakings to adopt monetary, fiscal, and other measures to maintain stability in price and cost structures; to develop production to reach targets set by the participating countries and, in particular, to increase the production of coal and basic foods; and to cooperate in reducing barriers to trade and promoting increased interchange of goods and services. Many other points and more detailed provisions to be covered in the agreements will be presented and discussed during the hearings.

Assistance to Europe will, to a considerable extent, take the form of commodities. The proposal to be submitted to the Congress contemplates the use of funds provided under the program for purchases outside the United States of commodities not readily available in sufficient quantities in this country. This policy will tend to protect our home economy against inflationary price movements which might result from concentrated buying in our markets. It seems clearly in our interest that the greatest possible amount of these supplies be obtained for Europe from other countries. Such countries should be encouraged to contribute directly as much as they can to the recovery program through grants-in-aid or by extending credits for exports to Europe.

Effects on world economy: I have so far confined my remarks to the European recovery program itself. But the economic effects of this program will extend far

beyond the boundaries of the 16 countries involved. It is in one important sense a world recovery program. The delay in European recovery has created a serious problem for many countries which normally supply the European market with raw materials and other commodities. Where Europe's trade with the rest of the world would normally have been balanced by an equivalent exchange of goods and services, the low level of European production and the limited availability of exports has drastically reduced such payment possibilities.

Furthermore, the habitual triangular trade patterns have almost disappeared, whereby Europe met its deficit for goods obtained from the Western Hemisphere by means of balances obtained from other parts of the world. Similar patterns of triangular trade used to provide certain other countries in the Western Hemisphere with balances from Europe which were used to purchase goods in the American market. With the break-down of these trade patterns, supplying countries, to a substantial degree, have had to accept nonconvertible currency or extend credit in order to sell in the European market. Neither of these procedures has given them dollars with which to purchase in the American market. The net result has been that trade continued around the world in large part on the basis of American grants or credits which made dollars available to other countries to meet their import requirements. The diminishing supply of dollars is restricting trade everywhere.

The European recovery program will be quickly reflected in other countries, if the important element of flexibility in purchasing is provided. To the extent that supplies for Europe are procured from nonparticipating countries for dollars, the trade position of these countries with the United States will be improved. In this way we feel that the problems of the other Western Hemisphere countries can be met through a combination of the European recovery program purchases and normal Export-Import Bank transactions.

More important in a fundamental sense, with increases in production in Europe such as those contemplated in the Paris report, exports from Europe will increase, and the necessity for the various supplying countries to accumulate nonconvertible currencies or to extend credit will diminish. Just as the progress of each individual country among the 16 will affect the progress of the others, so the recovery of Europe will inevitably be a significant link in a chain reaction creating or maintaining economic activity in other countries.

The situation in China continues to cause us deep concern. The civil war has spread and increased in intensity. The Chinese Communists by force of arms seek control of wide areas of China.

The United States Government and all other world powers recognize the National Government as the sole legal Government of China. Only the Government and

the people of China can solve their fundamental problems and regain for China its rightful role as a major stabilizing influence in the Far East. Nevertheless we can be of help and, in the light of our long and uninterrupted record of friendship and international cooperation with China, we should extend to the government, and its people certain economic aid and assistance. A definite proposal is under preparation for early submission.

I do not have to tell you that this foreign economic program of the United States seeks no special advantage and pursues no sinister purpose. It is a program of construction, production, and recovery. It menaces no one. It is designed specifically to bring to an end in the shortest possible time the dependence of these countries upon aid from the United States. We wish to see them self-supporting.

This is certainly not the program of a country seeking to exercise domination or to influence unduly any foreign country. The nations and political groups which have now declared their opposition to the program apparently wish to block for their own reasons the revival of western Europe.

Interim-aid program: I have gone at some length into the major features of the long range plan for European reconstruction and the part that the United States can prudently and wisely contribute because I fully realize that the speedy and adequate consideration of the interim-aid program which will be the first item of business presented to you cannot be dealt with by the Congress without understanding its relationship to the program of long range reconstruction of Europe.

I would, however, urge upon you the necessity of a speedy decision in regard to the inter-aid program. What is immediately needed is aid to maintain the status quo in food and in the material necessary to keep the wheels turning and people at work.

It will do little good to discuss the merits of a recovery program for Europe if in the meantime political and economic conditions have deteriorated to a point where such a program could not possibly succeed. The problem of overseas payment has become particularly acute in the case of Austria, France, and Italy. It is clear that the people of these countries in the absence of immediate assistance will, during the next few months, begin to suffer from a lack of food and other necessities of life and the whole economic and social life of the people will be seriously affected. Within a short time these countries will have exhausted all of the dollar resources which they can muster to maintain the flow of essential supplies.

Austria, whose economy is carrying the weight of a military occupation of four powers, has been able to survive in recent months largely through the assistance rendered to her under the United States foreign-relief program. These funds will be exhausted shortly after the beginning of the year. The dollar resources of France will

permit her to procure essential food and fuel from abroad only until the end of December. Because of her rapidly dwindling reserves, she took steps at the end of August to reduce sharply the placement of contracts for most other imports. Italy's financial situation is even more serious than that of Austria or France. Last June the Italian Government took steps to eliminate the purchase of most of the raw materials and supplies which she required for the operation of her economy. The United States foreign-relief program has been able to provide food and coal until the present time. Funds are not in sight, however, beyond the 1st of December to maintain the flow of these necessary commodities.

In order to meet this emergency, I recommend that you give immediate and urgent consideration to a bill authorizing the appropriation of sufficient funds to provide the supplies necessary to permit the people of these three countries to continue to eat, to work, and to survive the winter. This is not a recovery program. It is designed to help provide the essentials of existence to the people of these three countries.

To accomplish this purpose it is recommended that the Congress authorize an appropriation of \$597,000,000. Of this amount Austria needs \$42,000,000, France needs \$328,000,000 and Italy needs \$227,000,000. These funds should be sufficient to meet the situation until March 31, 1948, before which time we hope that some decision may have been taken by the Congress regarding a broad recovery program.

In the absence of a recovery program the problem of maintaining existing levels in Europe rapidly becomes more complex after March 31. Additional countries will by that time practically have exhausted their dollar resources, and the cumulative effect of the uncertainties as to the future and the continued low levels of production and consumption will have serious consequences throughout Europe.

The program of interim aid would be concentrated largely on such items as food, fuel, fertilizer, fibers, seeds, and medical supplies. With such resources as they can make available, the countries should be able themselves to procure other imports needed to prevent economic deterioration. The program should be sufficiently flexible to take account of such changes in requirements and availabilities as may occur.

Interim aid should be given to these countries under agreement to make efficient use of the commodities which we would supply. The bilateral agreements would also require that the local currency equivalent of the value of the commodities which we supply would be used only for such purposes as we and the recipient country might agree. They should also include a provision that the receiving government make known to its people the purpose and source of our supplies, and that it would make available full information concerning their distribution and use.

The operation of a program of the type which is proposed can be handled

expeditiously by existing agencies of the Government. The procedures and machinery which are being used in the current relief program have been set up in accordance with the relief bill enacted last summer.

The urgency of the situation is so great that I recommend that no new agency be set up to handle this interim program. The time required to organize such an agency, to hire personnel and establish new procedures, would defeat its very purpose. Whatever agency might be created to administer the long term European recovery program could, of course, take over the operation of interim aid as soon as it comes into existence.

There is one further element. It is my understanding that the Department of the Army will be presenting certain additional requirements for funds for occupied areas above the present appropriations available for this purpose during the current fiscal year. I am told that these will be on the general order of \$500,000,000, of which slightly more than \$300,000,000 will be for additional requirements in western Germany.

I have endeavored to present in broad outline the long-range European recovery program and, in somewhat more detail, the interim-aid program. The proposals will be presented in full to your respective committees.

Conclusion: In considering them I know you are aware of the momentous importance to the world of your decisions. While we are dealing at the moment with the drab though vital facts of economic life, they carry with them fateful consequences.

The automatic success of the program cannot be guaranteed. The imponderables are many. The risks are real. They are, however, risks which have been carefully calculated, and I believe the chances of success are good. There is convincing evidence that the peoples of western Europe want to preserve their free society and the heritage we share with them. To make that choice conclusive they need our assistance. It is in the American tradition to help. In helping them we will be helping ourselves—because in the larger sense our national interests coincide with those of a free and prosperous Europe.

We must not fail to meet this inspiring challenge. We must not permit the free community of Europe to be extinguished. Should this occur it would be a tragedy for the world. It would impose incalculable burdens upon this country and force serious readjustments in our traditional way of life. One of our important freedoms—freedom of choice in both domestic and foreign affairs would be drastically curtailed.

Whether we like it or not, we find ourselves, our Nation, in a world position of vast responsibility. We can act for our own good by acting for the world's good.

ⁱ The report was published as State Department Publication 2930 in late September: *Committee of European Economic Co-operation*, vol. 1, *General Report* (Washington: GPO, 1947). A second volume of appendices was subsequently published as *Technical Reports, July–September 1947* (Department of State Publication 2952). For further information on the Paris report, see note 3, Marshall Statement to the Senate Committee on Foreign Relations, January 8, 1949.

ⁱⁱ The Krug, Nourse, and Harriman reports were prepared in late 1947, at the direction of the president, to address questions surrounding European aid. The Krug report, titled *National Resources and Foreign Aid*, was prepared by Secretary of the Interior Julius A. Krug and released on October 9, 1947. It examined the effects of a foreign aid program on American natural resources, raw materials, manpower, and production facilities. Concluding that current resource levels as well as the inherently elastic nature of the US economy made such a program feasible, it also warned that the program would exacerbate current domestic shortages of materials such as wheat, nitrogen fertilizer, and industrial equipment.

The Council of Economic Advisers and its chair Edwin G. Nourse examined the possible effects of an aid program on domestic US economic issues such as prices, production, and government finance. The resulting report, released on November 1, 1947, and titled *The Impact of the Foreign Aid Program upon the Domestic Economy*, was more commonly known as the Nourse report. Its conclusions largely matched those of the Krug report. Notably, however, the Krug report determined that no new taxes would need to be levied for an aid program of the size proposed.

The Harriman report, formally *European Recovery and American Aid*, was prepared by a committee of academics and industrialists under the direction of Secretary of Commerce Averell Harriman and released on November 8, 1947. The last of the reports prepared for the president on the feasibility of a new aid program, the Harriman report focused on the limitations to be placed on any new aid. Stressing that a “moderate” increase in spending should be specifically targeted to break the bottlenecks of capital production and monetary instability that had plagued European recovery, the report cautioned against unconditional American aid that could increase inflationary pressures at home. It argued for an independent agency to administer a targeted aid program of between \$12 and \$17 billion that operated based on “realistic” monetary and capital goals set by the Europeans themselves.

ⁱⁱⁱ The National Advisory Council (NAC) on International Monetary and Financial Problems had been established by the Bretton Woods Agreements Act of July 31, 1945. Its job was to coordinate policies and operations of agencies which made or participated in making foreign loans or engaged in foreign financial, exchange or monetary transactions. Members included the secretaries of the treasury, state, and commerce departments; the chairman of the Board of Governors of the Federal Reserve System; and the president of the Export-Import Bank.