

The Marshall Plan

*Statement to Senator Arthur H. Vandenberg,
Committee on Foreign Relations, United States Senate
(January 18, 1948)*

Senator Arthur H. Vandenberg, Chairman.
Committee on Foreign Relations
United States Senate
Washington, D. C.

January 18, 1948

My dear Senator:

I have your request that I should present to the Foreign Relations Committee my views on the proposed "Economic Cooperation Administration" for aid to 16 Western European countries.

First of all I wish to make clear my conviction that we should help to the full extent which does not weaken our own economy and thus defeat all world recovery.

There are three dominant reasons why we should do so:

First, the spiritual character of the American people has always led them, and will for all time compel them, to prevent hunger and cold to the full extent of their surplus, and even to the extent of personal self-denial.

Second, while the defeat of Communism in Western Europe is of vital importance to the preservation of moral and spiritual values for which we stand, it is also of vital importance to us that the economic and political unity of Western Europe should be stimulated.

Third, the project builds for peace in the world.

The dangers inherent in the project are very great. On one side is the possible failure of Western Europe, now engaged in wide-spread experiments in socialization of industry, to secure the restoration of productivity; their possible failure to secure domestic fiscal and currency stability, their possible failure to secure economic and political cooperation with each other; and their possible failure to defeat the destructive politico-economic forces in their midst.

On the American side, dangers are that the volume of exports and finance proposed may accelerate an already serious inflation; that it further delays our recuperation from the war; that it drains our natural resources and continues excessive taxation: all of which might bring depression and thus destroy the strength of the one remaining source of aid to a world in chaos.

We must take some risks, and I should have liked to be able to give unqualified endorsement of the E.C.A. as presented to the Congress. I am compelled, however, by conscience to say that the plan as presented should have certain constructive modifications and more safeguards.

I suggest six directions of such action:

First, as to its organization.

Second, as to the scope of the plan.

Third, as to positive conditions to which the recipient countries should agree.

Fourth, as to the period to which we are committed.

Fifth, as to limits of burden upon the United States.

Sixth, as to some suggestions for lightening the burden to the American taxpayer and upon our economy, and yet preserve our purpose.

ORGANIZATION OF E.C.A.

No one would contend that the political relations involved in this plan should not be controlled by the foreign policy branch of the Government. But this plan is far more business and economic than political.

By this proposal, together with other authorities, and our other foreign aid projects, we are placing the control of the whole American economy in the hands of the organization which directs these operations. Its policies can determine the volume of exports, and thus prices, wages, rationing, inflation, and the progress of the incomplete reconstruction in the United States.

Beyond domestic questions, there are momentous foreign economic policies to be decided by the administrators of these powers. The need, finance and source of supply must be determined for each recipient country. These operations must be coordinated with our exports to all other countries and with our other relief operations. Above all there must be continuous evaluation to determine whether the economic and social policies of the constituent countries are contributing to success.

Such power should not be placed in the hands of any one man or any one department of our government. Obviously the administrative work involved should be conducted by one man. But its policies should be directed by a group, no doubt including department heads, but also including non-official citizens. The proposals of Congressman Christian Herter insofar as they imply group conclusions come nearer to meeting this requirement.

I assume it is intended to carry out this operation as a bipartisan enterprise, for only thus can we hope for success. There is far too much at stake to permit partisan approach. If these policies are to be bi-partisan, then the members of this board or commission should be selected by prior consultation with the Congressional leaders.

SCOPE OF RESPONSIBILITIES SHOULD NOT BE LIMITED TO THE 16 COUNTRIES

Even if administration of these funds is limited to the 16 countries, the scope of policy determination must be far wider. The front against Communism lies not alone in Europe; it stretches through Latin America and Asia. We have to bear in mind that the exports of the United States include also very necessary exports to those countries which supply us with essential imports and whose economies are positively linked with our own as, for instance, the Latin-American states.

We must, if we pursue this national policy, include aid to China and other nations, together with the occupied territories of Germany, Japan and Korea. There are thus not 16 countries directly under relief, but 20, and possibly more.

The food supply and reconstruction of industry in Germany, Japan, Korea and China are inseparable from the 16 countries. Both logic and administrative management suggest that they be placed in the hands of this commission.

We cannot separate a 20-nation segment of the world from the other 20 friendly nations and give it priority over them. Any undertaking to use American resources to the full extent to bring about stability of the world implies coordination with other countries.

CERTAIN CONDITIONS WHICH SHOULD BE AGREED TO BY RECIPIENTS OF E.C.A.

The plan presupposes certain basic conditions of cooperation between the countries to be aided which are essential to the success of our efforts.

One of the hopes of the world is economic and political solidarity of Western Europe.

Internally in each country the plan envisages an increase in productivity by abandonment of restraints upon enterprise and economy. It envisages balanced budgets and checks on inflation. Above all there need be abandonment of their wholly fictitious basis of foreign exchange. Were these things assured and were exchange based upon realities, private Western Hemisphere funds would pour into those areas; their domestic hoards of gold and currency would begin to come out and the demand for their exports would increase. All of which would decrease the drains and strains upon the United States taxpayer.

Moreover, the reopening of German and Japanese industrial plants is not only essential to provide needed materials in Europe and Asia, but the situation is at present an "operation rat-hole" to the extent of a billion and a half dollars for each year of charitable food from the United States to keep these people alive. With restoration of their production, and exports, that sum could be applied to reconstruction by E.C.A., not used to keep idle thousands of German and Japanese plants and workmen. Specifically, those of the 16 countries concerned should agree to the trizonal economic union of Western Germany, a peace with Japan; a cessation of plant destruction and removal; and abolition of or increase in "levels of industry" in these two countries.

No one expects all these things to happen overnight, but unless they are begun quickly our service toward world recovery will be largely in vain.

OUR COMMITMENTS SHOULD NOT BE EXTENDED TO FOUR YEARS

The plan originally proposed an authorization to E.C.A. of 17 billion dollars and a four-year program. The first 15-months' appropriation is proposed at 6.8 billion. But in addition to this, we are committed to Western Germany, Japan, Korea, and possibly China, and perhaps others, for supplies amounting to about 2 billion in this same period of 15 months, or a total of nearly 9 billion dollars.

It was prudent not to require that commitments be made by the United States at the present time for more than the first 15 months, until July 1, 1949. We cannot even hazard what the export and financial possibilities of the United States will be for more than a year in advance. Food being the largest item in the whole program, we can only judge from harvest to harvest. Nor can we long forecast our industrial production. Furthermore, we cannot tell in advance the requirements of each of these countries to which it is proposed to extend aid. They, too, are dependent upon their harvests; they are dependent upon cooperation between governments, and upon their labor and many other elements for which we cannot fix a financial or commodity commitment.

Even a moral commitment to a four-year program is unwise. We cannot enforce ideas upon other self-governing peoples, and we should keep ourselves entirely free to end our efforts without recrimination. The United States will at all times aid against hunger and cold. The fact that we have already spent 'probably 20 billions upon this purpose since this war and over 5 billions after the last war should be sufficient assurance that we will continue to support right-thinking peoples in the future.

THE BURDEN UPON THE UNITED STATES

Whether the American economy can stand a burden of 9 billions of relief in this 15 months must arouse great anxiety.

It amounts to about 18% of our whole Federal tax income during such a period. It amounts to 36% of all the personal income taxes. Yet the country surely needs tax relief if its productivity and employment are to be sustained.

Another disturbing question is the effect upon prices, wages and inflation generally of the volume of exports and finance here proposed. In the fiscal year 1946 we exported 4.4 billion dollars more goods than we imported. In the fiscal year 1947 we exported 7 billion dollars worth of goods more than we imported. (In both cases services are omitted.)

These differences were represented by gifts and loans to foreign nations. They were bumper-crop years, yet the volume of exports in fiscal year 1947 and since have undoubtedly raised prices and started inflationary spirals. It seems difficult to believe that we can continue at the rate now proposed and not produce the same effect.

It is not an answer to say that under this plan large amounts of American money will be used for purchases of commodities in other countries on behalf of recipient nations and thus relieve export pressure upon the United States. These other countries thus receiving our money will wish to transform that money into goods from the United States. If we refuse export certificates for all or part of their demands because we do not have the goods, either our money will go to a discount, or we will necessarily enter obligations to pay those nations at some future date. Thus the United States will in effect be borrowing money abroad to finance this program.

It is an illusion that scarcity and thus increasing inflation can be more than temporarily retarded by compulsory fixing of wages, prices and rationing. Aside from the reduction of primary freedoms involved, history and our national experience prove that any such course sets up chain reactions which ultimately decrease production and defeat their very purpose. A part of Western Europe's present difficulties is due to these practices.

The only safe road for us is not to over-export. We can to some extent increase the amounts available for export and hold prices by adopting strong voluntary conservation measures; by using voluntary restraints on prices and wages; by doing more and harder work with uninterrupted production. Such voluntary organization, if vigorously and systematically administered, avoids most of the evils of the coercive system.

SOME SUGGESTIONS FOR LIGHTENING THE BURDEN UPON THE AMERICAN TAXPAYER AND UPON OUR ECONOMY

If some of the imported quantities scheduled be reexamined in the light of supplies, if certain principles were established by Congress, if certain requirements were fixed, and if an effective business organization were set up, I am confident that the burden upon the American taxpayer could be lessened and our essential purpose accomplished.

European proposals on which this plan is based have undoubtedly been formulated in good faith but some suggestions seem permissible.

First. The food programs when correlated to the needs of the rest of the world would appear greater than the world supply during the first period from April to June, 1948, and at the same time maintain rations in the occupied areas and some "plan" countries at an endurable level. Further, these programs seem to imply a dependence upon world harvests much ' greater next year than last.

Second. The program for agricultural reconstruction seems imperative, but the program for industrial production implies not alone a restoration of prewar productivity but a great increase in such production above prewar. That is indeed greatly to be desired, but whether Americans are able out of production and taxes at this time to provide more than a restoration to prewar levels is another question.

Third. The program calls for export of about \$800,000,000 of capital goods including steel and machinery from the United States in the 15 months period. Both the Harriman and the House of

Representatives Reports cast doubt upon our ability to supply this amount of steel production and to maintain our necessary exports to other vital quarters. A House report states that these demands are "a staggering deficit to impose upon steel in the United States ... it is difficult to see how ... it would be possible to fulfill this program without seriously weakening our economy." The capital goods programs of the 16 nations of necessity may need to be extended over a longer term.

In fact, our productive machine today is crippled by the insufficient railway equipment for the prompt delivery of goods; our food production is lessened by scarcity in agricultural machinery, we have sporadic oil famines due to lack of oil-well, refining and transport equipment; our automotive industry is short of raw materials; we are dreadfully short of building materials for veterans' homes. No further evidence of shortage is needed than the black market where steel is selling for over 100 per cent premiums.

It would seem that the possibilities of early steel and machinery production in Germany should be more vigorously undertaken, obviously with readily effective curbs as to any munitions diversion. With removal of the inhibitions on these German industries, with vigor and working capital, a large segment of this program could be supplied from that quarter, instead of by increasing scarcities and delaying reconstruction and increasing taxpayer costs in the United States. It may be said that Germany cannot do this and export coal to the 16 nations. Pending increase in Ruhr coal, some increase in United States coal exports might be found to be better. The same policies should be applied to fertilizers and to oil refining in Germany.

In any event, it would appear that the 15 months' capital goods program must be extended over a much longer period.

Fourth. The estimates of over \$650,000,000 of petroleum supplies to the 16 nations for the next 15 months represent a considerable increase over the last 15 months and would seem to be greater than the supply. Pending development in the Persian Gulf, the world is already short of oil and there seems no source for any such an increase.

Fifth. Inquiry might be made into methods of relieving the United States Treasury of some of this cost through collateral loans by, say, the R.F.C. or by the Export-Import Bank.

There are citizens in some of these European states who have large private property in the United States and in other parts of the Western Hemisphere. Prior to the war, the British Government collected a group of such investments and borrowed money on them in the United States. There are large sums of this character still outstanding, and they could be collected by the various European governments, paying their citizens in their own bonds; these assets could then be pledged as security for loans in the United States. If there is protest that taking over these privately held resources is a hardship to the owners, it may be pointed out that the alternative is a far greater hardship for the American taxpayer. In the first instance, the owner would be reimbursed in full in his own currency; in the second, the American citizen would be taxed the full amount and never see it again.

Sixth. Some expansion of private enterprise in supplying of capital goods to the 16 nations, and thus relief to the United States Treasury, might be found in the use of foreign currencies realized from the sale by the recipient countries of United States goods coming to them as gifts or grants.

In April, 1947, I recommended to the Congress, in connection with the relief appropriations then before it, that it should specify that the currency received from the resale of American goods to the populations in each country be deposited in their national banks to the credit of the United States. We should then set up a commission which, in cooperation with the government concerned, would use this money to promote productivity within that country. A form of that proposal was incorporated in the European Aid Act of 1947 and is contemplated in the present legislation.

My suggestion here is that if these funds were to be used in the aided countries to pay for labor and domestic materials in productive works, there should be thus created an equity upon which American private enterprise could furnish the necessary imports of capital goods.

Seventh. It is proposed that this nearly \$9 billion in 15 months shall be by grants which are gifts, as well as by loans. I suggest the Congress should define some general principles of distinction between gifts and loans.

We must disillusion ourselves that loans from the United States Government, except where secured by transferable property, or other specific security, are real loans. They are gifts. There are economic as well as political reasons why such "loans" will not, and cannot, be repaid. We will act more intelligently if within the minds of our own people and those of the recipient peoples we separate our gifts from our loans. We should separate charity from business.

That division can be made clear if we confine our gifts to the actual American surplus of consumption goods such as food, coal, fertilizers and cotton (not for re-export), which are essential to maintain life. I believe the American people are perfectly willing to give these commodities as a gift to those countries who cannot pay for them. While giving these away will be privation, yet we can reproduce the agricultural products and we have ample future resources in coal and some fertilizers

The total of such relief goods from the United States during this 15 months might amount to \$3 billion. Such an amount of gifts would enable participating countries to use their exports to pay for other goods in their programs.

The relief exports to Germany, Japan and Korea should be a first charge on all reparations.

Eighth. I do not believe we should be called upon to make gifts or grants of steel and other capital goods. They can be paid for out of the increased productivity which they create.

In the program of proposed supplies to the 16 countries from the United States, nearly one billion dollars are capital goods. Aside from the portion which can be financed by private enterprise, such goods should be financed by the Export-Import Bank or the World Bank whose independence of decision should not be modified under the present set-up as they can continue to take specific and ultimately reliable securities payable from the increased production they create.

Ninth. I do not believe we should make gifts or grants of American money to pay for goods from other countries.

The program of supplies apparently calls for a large part of \$3.5 billion of Western Hemisphere goods to be purchased with American money from Canada, Argentina and other Western Hemisphere states. Of this amount, under \$200 million represents capital goods, the rest being mostly agricultural products. As the latter represents surplus production of the other Western Hemisphere countries, it would appear that they should be anxious to sell and, no doubt, to cooperate in creating world stability. It would seem, therefore, that these states should extend credits to the 16 countries for such goods. A partial guarantee, or advance, against such credits by the United States through the Export-Import Bank is the most that we should be asked to give.

CONCLUSION

With these various suggestions I believe it is possible considerably to reduce the burden upon our citizens and at the same time to assure the accomplishment of our national purpose.