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Groundwork in the United States

While the work of the CEEC was in progress in Europe, a complementary chapter was unfolding in the United States. The positive British and French response to the Marshall speech produced in many quarters here a hope that European initiative might lead to a well-conceived recovery effort, in conjunction with which American aid could be more than a temporary palliative. But questionings arose about the amount of aid the American economy could safely provide, and there were early rumblings of discontent over the prospect of continuing taxes to "bail out Europe."

On June 22, the day before arrangements were completed for the Big Three conference in Paris, President Truman appointed two committees to make studies needed in drawing up a program for Congressional approval, and he directed the recently established Council of Economic Advisors to develop a complementary analysis.

The most important of these three studies was conducted by the **President's Committee on Foreign Aid**, consisting of eminent private citizens and chaired by **W. Averell Harriman**, then Secretary of Commerce. This body analyzed the principles and policies which should guide the conduct of an aid program, the needs and capacities of the European countries, the volume of assistance required its relation to the American domestic economy, and problems of finance and administration.

The second committee, under the chairmanship of **Secretary of the Interior Julius A. Krug**, investigated United States resources and physical capabilities in relation to a large new aid program. The **Council of Economic Advisors**, headed by **Edwin G. Nourse**, studied the probable effect of anticipated exports, financed in part with government funds, upon domestic production, consumption, and prices.

Although the conclusions reached by the two committees and the Economic Council were at variance in minor respects, the consensus was that to avoid economic collapse, western Europe must have long range assistance on a comprehensive scale; that with such aid the countries of western Europe could achieve recovery; that with skillful management the resources and productive capacity of the United States were equal to the extraordinary task contemplated; and that if assistance should not be extended, free institutions everywhere, including those in the United States, would be in jeopardy.[1]

More specifically, the "**Krug committee**," in a report issued on October 19, 1947, under the title National Resources and Foreign Aid, declared that while preserving national security and standards of living, the American economy could provide the resources for a considerable program of foreign aid. This conclusion was based on detailed studies of commodities deemed most likely to be required for the program wheat, nitrogen fertilizers, coal, steel, industrial equipment, farm machinery, nonfarm tractors, petroleum, and petroleum products.

A summary of the "**Nourse report**" was released on November 1.[2] It predicted that without a new aid program there would be a sharp drop in American exports. While such a rapid reduction, in the opinion of the Council,

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[1] cf. *First Report to Congress of the Economic Cooperation Administration* (Washington, 1948), p. vi.

[2] *The Impact* of Foreign Aid *upon the Domestic Economy: A Report to the President by* the *Council of Economic Advisors* (Washington, 1947), submitted October 28, 1947.

> would probably not inflict serious short-run damage on our own economy, substantial problems of adjustment would be generated. Moreover, the industrial paralysis which could be expected to result in some other countries would have repercussions of major proportions upon our own economy and upon world stability.... In the longer run, the economic restoration of Europe will benefit our own economy by enabling us to obtain more goods by advantageous trade [pp. 74f.].

Indicating that a larger annual impact than that anticipated had been sustained in the past, the report concluded that the aid program could be supported. But it stressed that "problems raised by specific commodities in relatively short supply could distort or overturn this generally optimistic picture if not dealt with effectively." And the Council cautioned that the "general inflationary threat resulting from the combined impacts of foreign and domestic demand requires the continuance of tax revenues at present levels, maximum economy in government expenditures, stimulation of saving, and the enlargement and aggressive use of measures to control dangerous expansion of credit."

The Harriman Committee

The President's Committee on Foreign Aid, known as the "**Harriman committee**," carried the major responsibility for anticipating the problems that would arise, and for laying a groundwork of analysis essential to wise policies and a sound program. The committee was a nineteen- member advisory group composed of "distinguished citizens" representing major sectors of American life. The caliber of the group and its nonpartisan character were attested by its membership.[3]

The idea of such an advisory council seems to have originated with a recommendation by Senator Arthur H. Vandenberg during a bipartisan consultation at the White House shortly after the Marshall speech.[4] William C. Foster, then Under-Secretary of Commerce, took a leading part in the nomination of members.

"The initiative in actually setting up the committee," said Harriman later, "was taken by Acheson; Marshall had a hand in it. As the plan progressed, Vandenberg was consulted and approved; he suggested Bob La Follette to help in the work. A number of the members made important contributions. The section

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[3] Hiland Batcheller, president, Allegheny-Ludlum Steel Corp., Pittsburgh; Robert Earl Buchanan, dean, Graduate College, Iowa State College; W. Randolph Burgess, vice-chairman, National City Bank of N.Y.; James B. Carey, secretary-treasurer, CIO; John L. Collyer, president, B. F. Goodrich Co., Akron; Granville Conway, president, Cosmopolitan Shipping Co., Inc., New York; Melville F. Coolbaugh, Colorado School of Mines; Chester C. Davis, president, Federal Reserve Bank, St. Louis; R. R. Deupree, president, Proctor & Gamble Co., Cincinnati; Paul G. Hoffman, president, Studebaker Corp.; Calvin B. Hoover, dean, Graduate School, Duke University; Robert Koenig, president, Ayrshire Collieries Corp., Indianapolis; former Senator Robert M. La Follette, Jr.; Edward S. Mason, dean, Graduate School of Public Administration, Harvard University; George Meany, secretary-treasurer, AFL; Harold G. Moulton, president, The Brookings Institution, Washington, D.C.; William I. Myers, dean, New York State College of Agriculture, Cornell University; Robert Gordon Sproul, president, University of California; and Owen D. Young, honorary chairman, board of directors, General Electric Co. Named as executive secretary heading an executive staff of nine, was Richard M. Bissell, Jr., professor of economics at the Massachusetts Institute of Technology and former member of the War Shipping Administration. Although the group was chaired by the Secretary of Commerce and had the full cooperation of government agencies, it was itself only in a limited sense a governmental organization.

[4] Interview, Marshall, October 30, 1952. See *The Private Papers of Senator Vandenberg,* ed. by Arthur H. Vandenberg, Jr. (Houghton Miffiin, Boston, 1952), p.376.

on America's interest in Europe was done largely by LaFollette. Disagreements in the committee, which were not too serious, were mainly over what our economy could afford."[5]

If not "too serious" in retrospect, vigorous debate developed on a number of issues. The problems and the data confronting the group were of an enormous range and complexity. The committee and its staff worked at full speed throughout the summer and into the autumn, and its report, entitled European Recovery and American Aid, was transmitted to the President on November 7, 1947. The committee agreed that the United States had a vital interest--- humanitarian, economic, strategic, and political---in helping Europe achieve economic recovery, declaring:

> Our position in the world has been based for at least a century on the existence in Europe of a number of strong states committed by tradition and inclination to the democratic concept. The formulation of the Paris [CEEC] report is the most recent demonstration that these nations desire to maintain this concept. But desire is not enough. The democratic system must provide the bare necessities of life now and quickly rekindle the hope that by hard work a higher standard of living is attainable. If these countries by democratic means do not attain an improvement in their affairs, they may be driven to turn in the opposite direction. Therein lies the strength of the communist tactic; it wins by default when misery and chaos are great enough. Therefore the countries of western Europe must be restored to a position where they may retain full faith in the validity of their traditional approaches to world affairs and again exert their full influence and authority in international life [p. 4].

At the beginning there was some disagreement in the committee whether the program should be envisaged as essentially a charity or as a cooperative effort to bring about economic recovery. But as discussion progressed, thinking crystallized in favor of the latter approach.

The report stressed the importance of a great upswing in production. But the committee, foreshadowing a future issue in several European countries, expressed concern lest the Paris group might have put a disproportionate emphasis on capital expansion.[6]

The advisory group recognized a basic imbalance between the European and American economies. "Our goal," it asserted, "should be to bring about a condition where exports from this country are more nearly balanced by a return flow from abroad of services and materials essential to our own economy." It believed “that the European nations desired to achieve such equilibrium in the interests of their self-respect and prosperity," and that "to make this equilibrium possible should be a major objective of any program of aid."

[5] Interview, Washington, October 1, 1952.

[6] "It is obvious," stated the committee's report, "that if Europe is to be revived and made self-supporting-if our aid program is not to degenerate into just another relief program-the European nations will have to rehabilitate their capital plant. But it cannot be too strongly stated that the process of investment and capital formation imposes a severe strain on the country undertaking it. . . . At the present time, gross investment in the United States is running at about 17 percent of total national product at the height of a boom. Some of the European nations have attempted to exceed this rate. It seems unlikely that European nations can prudently afford to sustain capital formation on as large a scale as they have planned. What this means, in effect, is that housing programs and capital development may have to be slowed down until European recovery is much more advanced than at the present" [pp. 6-7].

A particularly difficult question was the amount of assistance needed. In considering this problem, the committee had to take into account the uncertainties of the situation in Europe and the extent to which the American Congress and people would support a massive aid effort. The conclusion reached was that "because of the inherent impossibility of narrowing the margin of error to a tolerable size, no honest man will try to decide at this time how much aid Europe will need and how much it would be wise for the United States to give for a period as long as four years." Grave consequences would follow from any attempt to achieve a finality for which there is no basis. "A rigid ceiling set too low would provoke another crisis; one set too high would encourage waste." However, since the American people had a right to know what was likely to be the ultimate cost of any commitment upon which they entered, upper and lower limits were estimated, supplemented by more precise figures covering the first year.

With these qualifications, the report indicated that the dollar financing required over a four-year period might range from 12.5 to 17.2 billion dollars (in round figures) in grants and loans from the United States Treasury, and roughly 5.8 billion dollars from the World Bank and other sources. To cover the calendar year 1948, it was believed, appropriations past and future---of the order of 5.75 billion dollars would be necessary. The amount of American aid required, the report stated, could be estimated only by calculating the foreign exchange deficit of the participating countries. This broad approach---an innovation in aid programing-obviously reflected a determination to see the problem of European recovery in more than piecemeal terms. The report found "little evidence that the goals set at Paris to restore standards of living were excessive in terms of basic requirements."

On the thesis that "the hope of western Europe depends primarily on the industry and straight thinking of its own people," the committee underscored Secretary Marshall's original emphasis on European initiative. Aid was to be viewed not as a means of supporting Europe, but as a "spark which can fire the engine."

The Harriman committee went more deeply than the CEEC into the need for reducing economic barriers within Europe. Scaling down tariff restrictions, it held, was of little moment if exchange and other controls were to be maintained. It asserted that whatever one's attitude toward free enterprise might be, "there is all but universal agreement" that true economic recovery depended on releasing the energies of individuals and cutting down on time-consuming regulation of production and distribution.

Disagreement arose in the committee over using the aid program, to foster expansion of free enterprise in countries with socialist governments. Certain members argued in favor of this course, convinced that it would speed recovery and help counter disparagement of the program on the ground that it tended to "coddle" socialism. Others, including the chairman, were opposed. Paul G. Hoffman became, in effect, the mediator on this issue. The position finally agreed upon was embodied in a temperate statement:

> Aid from this country should not be conditioned on the methods used to reach these [agreed] goals, so long as they are consistent with basic democratic principles. Continued adherence to such principles is an essential condition to continued aid but this condition should not require adherence to any form of economic organization or the abandonment of plans adopted and carried out in a free and democratic way. While this committee firmly believes, that the American system of free enterprise is the best method of obtaining high productivity,

it does not believe that any foreign-aid program should be used as a means of requiring other countries to adopt it. The imposition of any such conditions would constitute an unwarranted interference with the internal affairs of friendly nations [pp. 4-5]

Sharp differences also arose over the question whether the American economy could support, without serious damage, an aid program of the size proposed. The "hottest fight," recalled a member of the committee's staff, was touched off by a discussion of crude steel resources. After a detailed canvassing of American supply availabilities the cautiously optimistic conclusion was reached that, if funds were available and European requirements known in detail, exports could be maintained, and in many cases stepped up. The committee emphasized, at the same time, that "supply will be a limiting factor in many cases" and that "the aid which the United States gives will impose definite sacrifice on this country."

The report took direct issue with the Communist propaganda line that Marshall Plan aid would be merely a device for dumping American surpluses abroad, and also with a widely held view on the desirability of subsidizing exports:

> The Committee regards as nonsense the idea which prevails to a considerable degree in this country and abroad that we need to export our goods and services as free gifts, to insure our own prosperity. On the contrary, we are convinced that the immediate economic danger to the United States is inflation, which means, among other things, a shortage of goods in relation to demand [p. 3].

With support from Senator Vandenberg and others, the committee considered the moot question of organization and recommended that, to insure unity of administration, a new independent agency be set up in the federal government. As a "final word," the committee expressed the view that

> success depends on giving way neither to over-optimism or undue pessimism. It is one thing to propose a program; it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.... At no time in history has there been more need for western Europe and the United States to stand firmly together. And who will say that, if we will apply to the making of the peace the same spirit which triumphed in war, we may not see an equally dramatic vindication of the ideals and principles of free men everywhere?[7] [Pp. 11-12.]

Many of the questions dealt with by the Harriman committee were later analyzed much more fully. But, like the CEEC, it broke new ground, providing a considered rationale for the program and an indispensable basis for the work that was to follow.

[7] "The quality of the committee's report," commented Hoffman more than four years afterward; "was due largely to the tireless work of Dick Bissell; he was 'it'-pulling together a vast amount of material, selecting what was important, and preparing an effective presentation for the committee and for Congress. From a public relations standpoint," he continued, "I think the work of the Harriman committee was crucial. It was an appraisal with the participation of representatives of business, labor, agriculture, and the public generally. It was well conceived and was taken seriously." Interview cited.

Labors in the Executive Branch

Extensive groundwork was also being laid, concurrently, by the executive agencies of the government, under the general direction of Under-Secretary of State Robert A. Lovett. Part of this consisted in support given to the Harriman, Krug, and Nourse committees. Part was in further converting the Marshall Plan from a broad, general conception into a specific program which could be presented to Congress. Participants in this intensive effort, to name but a few, included Willard Thorp, C. Tyler Wood, Paul Nitze who provided much of the intellectual and organizing drive, Lincoln Gordon, Colonel C. H. Bonesteel, III, Charles Kindleberger, Ernest Gross, and Ambassador Lewis Douglas who was called back from London repeatedly to give political guidance and to conduct key consultations with members of Congress. Cooperating extensively with these members of the State Department were high-level personnel in other agencies-for example, Frank Southard in the Treasury Department and Frederick Northrup in the Department of Agriculture.

Those named above, and many others with them, fed to the Harriman committee much of the substance of its report, developed in large part the detailed case to be presented to Congress, and set up a temporary unit for the handling of initial planning and shipments which made it possible, after the Marshall Plan was approved, for the operation to be launched promptly with a quick flow of aid to countries nearing bankruptcy. This work did not proceed without problems. An interdepartmental committee employed was not a wholly satisfactory instrument. Part of the voluminous technical data prepared under pressure was unwieldy. Certain of the recommendations readied for Congressional consideration were not politically feasible---e.g., a proposal for a general four-year authorization of about 17 billion dollars. But these were marginal aspects of a body of solid preparatory work without which the Marshall Plan could not have been launched as a sound undertaking.

Emergence of the Marshall Plan

The CEEC report, the findings of the Harriman, Krug, and Nourse committees, and preparatory work done within the executive branch of the government laid the foundation for consideration by Congress. Thus by early November 1947 the idea put forward by Secretary Marshall on June 5 had grown into the outlines of a plan. Five months had elapsed since the Harvard speech; two more were to come and go before Congress, in regular session, could begin the task of systematic examination of specific bills. In anticipation of such activity in January, President Truman on December 19 sent to the Congress---then in special session---a message on "A Program for United States Support to European Recovery."[8] "Our deepest concern with the European recovery," he stated, "is that it is essential to the maintenance of the civilization in which the American way of life is rooted."

[8] Reproduced in House Doc. 478, 80th Congress, 1st Session (1947).