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ADMINISTRATION OF ERP

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LT. COLONEL TEMPLE: At this point in the course we are rather well aware of the impact on the economy of this country in mobilizing for war. Now the European Recovery Program is just starting and it undoubtedly is going to have quite an impact on our economy. We well might ask ourselves what the total impact might be of the European Recovery Program and the large military requirements. To help us get a perspective on this, our speaker this morning will discuss the European Recovery Program. Mr. Herbert Feis.

MR. FEIS: I will not use my circumscribed time to go into the history of the program. You all know that it stems from a general offer made by the Secretary of State in June of last year to consider such assistance as the countries of Europe might think they require to regain a normal and stable working life. You all know that this offer was addressed to the whole of Europe at a time when internal unrest and social division and the failure to arrive at a quick settlement of disputed political questions left behind by the war were demoralizing economic life throughout western Europe. You all know that Russia and the group of countries under its direction rejected participation in the program, thereby, I have no doubt, changing its character very much. You know that sixteen countries of western Europe, if you can include Turkey and Iceland in that term, met; that among them they formulated a request for assistance based on computations of what they require to regain a normal situation of productivity and to again become self-supporting.

Now, there is a certain amount of what for lack of a better word I call mystery connected with the formulation of that original program, as contained in the first report of the European Committee of Economic Cooperation. It was composed out of the various programs or conceptions advanced by the individual governments of the sixteen countries, scrutinized somewhat by the assembled group, but not closely. These requests were revised after consultation with representatives of the American government when it became apparent that the total amount asked would be beyond what we would be willing to consider and that the quantities asked of certain commodities were greater than we could or would make available. The adjusted program, as submitted, was then studied by various well-qualified committees appointed by the American government. After many and thorough examinations, the program was enacted into law -- now known as the ECA legislation (Public Law 472, the Foreign Assistance Act of 1948).

I want to say that I have never seen a major piece of legislation in the foreign economic field of as difficult a character as this drawn with as much insight and judgment. Considering the number of reasons for serving secondary purposes, for having hesitation, for trying to suit the pleas of special interests inside the United States and outside, this seems to me an admirably drawn document on large and very promising lines.

I will assume that you are familiar with its main features and will concentrate merely on a few main points around which the most important problems of administration in the broadest sense, consisting both of policy and operation, are likely to arise.

Conceived first as a four-year program of assistance, it was quite wisely adopted as such, but funds were made available for only the first working period of twelve months, with the thought that judgement as to what was needed had to be made freshly as circumstances developed.

The aid is expressed in terms of dollars. It, of course, will actually consist in the provision of goods paid for with those dollars. The conception is that each of the recipient countries shall be given the means to obtain such kinds and quantities of essentials as will enable it to achieve the objectives visualized in the program.

Those objectives are: first, to restore productive activity in essential lines of food production, power development, transport, and steel and iron production; secondly, and connected with this increase in production, to place itself in a position where each will become at the end of the period self-supporting. This would mean that each would have sufficient productive power and the trade opportunities to be able to produce and sell abroad enough goods to provide the means of paying for needed imports. In summary, the revival of production within each recipient country and the attainment of a self-dependent position are the basic results sought.

The first may be much more quickly and easily achieved than the second. Already in most of these countries the indices of production are advancing very rapidly and promisingly. The four exceptions to that are western Germany, Italy, Greece, and Austria; in those four of the sixteen countries the internal production in many fields is still very low. In the rest it has been coming forward rapidly, more rapidly than the development of those trade relations which are required to give them the external means of payment to buy those essential products which they cannot themselves produce. In short, of the two it seems that the working out of what is called the balance of payment situation is going to be the more troublesome of the two. It is made difficult because of many changes of circumstances which hinder the attainment of self-support in a trading sense even though their production itself develops rather well.

I will name some of the difficulties. I will start with one quite different in character from the rest, because it originates in the failure or fault, human though it be, of the countries themselves. Many of those countries, emerging from the sufferings, the hardships, the danger, and anxiety of war, with a socially disturbed situation, set before themselves national programs of production and development that were plainly beyond their means -- beyond their powers to produce and to finance. Many of them are now just learning that the program adopted was over-ambitious, requiring resources, labor effort and capital each in excess of what they had. This attempt to do too much, too soon, increased unduly their needs for imports, and increased their measure of dependence on outside help. In short, during the past two years the task of becoming self-supporting has been placed out of reach in part because of the use made by some of these countries of the means they possessed.

The other elements of the trouble have been outside the control of the countries in need. I shall name a few -- the prices of things that on the whole they had to buy, such as food, had gone up so very much; the fact that the Southwest Pacific was in such a state of internal and political disorder, that so many of the productive properties of the Pacific in the Southwest have been destroyed or injured by the war, meant that that source of supply was greatly reduced; the damages within those countries, the physical damages left by the war; the growth of the split between the East and West of Europe, which meant that these sixteen countries no longer could acquire goods from East Europe in the same quantities as before. These have been and remain some of the causes of disequilibrium outside of the control of the countries that have entered into the European Aid Program.

It was the combination of these and various circumstances that caused that huge dollar deficit for these sixteen countries -- in the sense that their needs, both for maintaining anything like their customary standard of living and for rebuilding their production plant, far exceeded their capacity to pay. I repeat -- it looks very much as though the success in rectifying this balance of payments situation is going to be slower and more difficult than the direct effort of getting production within each of these countries back to a fairly satisfactory level.

Another connected feature is this: I have already said that the original program as presented to the American government emerged from a meeting of representatives of sixteen countries in which there was a certain amount of scrutiny one by the other of requests. But, so far as I can learn, that is, after quizzing two or three of the leading figures in that conference, the request can hardly be called a joint request or a joint program. Recently, the representatives of the sixteen countries have again met to discuss their requests and programs. This consultation

among the recipient countries was, I understand, somewhat delayed and restrained out of fear, resting on bad advice, lest by meeting together, before this legislation was in definite form, they might seem to be developing some fixed, joint program of demands upon the United States; that Congress and the American people would resent it; that opponents might misconstrue their consultation as an attempt to use their combined influence to work upon us in determining what help they would get. Thus further discussion of the extent to which this program shall be a joint one rather than merely a composition of different national programs has in my judgment lagged -- of course, you understand that my remarks are entirely my own personal opinion. It is still lagging. There have been oceans of print and oratory about the conception that this was something that could be called a forerunner or foreshadow of a unified Europe or unification at least in the economic sense of these sixteen countries. But I cannot as yet find much basis for any hopefulness along that line.

The extent to which these countries have promised to compromise on their individual demands in order to create an all-over pattern is very small. The extent to which they have agreed more freely to trade with one another is comparatively small. Progress in cooperation in monetary matters is small. The effort is still going on. The test is ahead. But certainly the Economic Cooperation Administration is going to find that they have to start almost at the beginning. I, along with you, I trust, will watch to see how that works out.

Just one or two other features of the program: The legislation gives the Executive the power to decide the terms on which these goods shall be made available, whether as gifts or grants or loans or part loans. There is a wide field of discretion.

It is recognized that it is essential that a very large part be made as a grant. In regard to that part of the aid program it is provided that the recipient countries shall put aside in a special trust fund their own currency equivalent to the amount of goods received as grants. Now, that is going to mean that in certain of these countries, the larger ones in particular, like Great Britain, France, Italy, Holland, and Belgium, there are going to be huge amounts of the local currency put into these trustee funds.

Now, the legislation provides that the use of those funds shall be decided by joint agreement in the United States; that they are to be used for jointly recognized purposes: the development of production, the attainment of self-dependence, and the reestablishment of stability in the monetary sphere.

It is going to take very clear and thoughtful judgment to keep the scheme moving satisfactorily in regard to the use of these vast amounts of trustee funds. Let us take the French plan as an example. At the

present rate of the franc you keep pouring into the special trustee fund enough francs to pay for a billion or more dollars of goods, and you have a fund of local francs that overshadows everything else in the French financial situation.

Now, the French Government--I am taking France as an example--is going to be under every type of domestic pressure that a democratic system is under for the use of those funds. Then, also, the American government is going to have ideas of its own as to what should be done in the fiscal sphere, in the monetary sphere, and in the production sphere. It will have, for example, to pass judgment upon such questions as the rate of expansion of steel production in France, in England, in Belgium, in Germany--questions of that type. There will be a great call for mutual understanding, especially since it is probable that Communist propaganda is going to center on the point that the use of these funds is subject to American approval.

The Communists attack the plan by assertions that it is merely an instrument by which American capitalism or imperialism, or both, is going to make these local countries subservient to our will, mere instruments, first-line troops in the battle against communism, servants of high-powered and highly organized vested American financial interests. That is the Communist line.

This calm and yet unimaginative decision in regard to the use of trustee funds is essential. The degree to which this subject can be worked out by collaboration is going very largely to determine whether this Communist assertion is credited, or whether belief in the honesty of our purposes, our willingness to give this help as part of an attempt to establish a true cooperative arrangement, not a dominating arrangement, will prevail.

One more feature of the program and I will stop, so that we might have some discussion. This happens to command my own particular interest, therefore, I will probably introduce it out of proportion.

You are all aware that during the two wars and in the interval between we have drawn upon the natural resources of this hemisphere very heavily. I will not say "alarmingly," although there are a few materials that have been consumed in very great measure compared to our total reserves. We have done it unstintingly in two wars in order to win the war and in the period in between just to make money. Now we find ourselves anxious about our long-run supplies of these materials, about the question of whether we still have enough to retain our economic independence and be able to equip a war, especially since--this is common knowledge; Admiral Payne made it clear to a House committee just a few days ago--our stock piles of various critical and strategic materials are not what they should be. I think that is again partly our own fault.

Here I venture into a personal field of opinion. Our plight is partly our own fault: in the last year or two we have done again what we did before World War I. Whenever there is conflict of interest between a current industrial need and a reserve military need, we have given preference to the industrial need and the reserve military need has been put in the background. We did it consistently from 1935 to 1940 and we have been doing it again during the past year.

Well, the conception is that as part of this ECA undertaking the recipient countries, to the extent of their ability, will cooperate with us in increasing the production of various natural resources which we may want; we will talk later as to the terms on which we might acquire those materials, whether in part payment for the help we are giving, or whether it makes more sense in the light of their continuing balance of payments difficulty merely to buy them. At any rate, our object is to increase the available production of these critical and strategic materials, so that it will be more easily done for us simultaneously to satisfy both our current industrial need and to acquire reserve stocks for national defense purposes.

That element in the legislation is going to take great negotiating ability and mutual trust. We are going to encounter every kind of national fear, of obstacle, and of suspicion in working that one out; I direct your attention to it as a center of interest.

One last and more difficult point and then I will stop. I have dwelt on the trade and production aspects of the question. I passed over the monetary or fiscal. Now, it is commonly agreed that in many of these countries production is being retarded and badly shared among the people, and the growth of their trade is being delayed by the fact that their money has depreciated very greatly; their governments are still running heavy deficits, the quantity of money in circulation is still increasing more rapidly than the quantity of goods--it is still a case of abundant money facing scarce goods; and that if you want business, production, trade, and the satisfactory distribution of the products among the people to take place, this monetary situation also must be corrected.

The large accumulations of local funds that will result from the application of the ECA plan should prove useful to that purpose. But the success will require great understanding on the part of people aided, a willingness of every group in the community to get along with a little less, to compromise, to pay taxes, to give up spending projects, to go back to what can be called living within their means again. And that is going to be very difficult in any country in this year of our Lord. Our conceptions of what we would like to do grow faster than our means.

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At first American opinion was inclined to insist that monetary and fiscal stability be established at once, no matter how drastic the required measures. Second thoughts are more moderate. It has been recognized that the achievement of budget balance, the arresting of inflation, the attainment of an orderly, stable monetary and fiscal situation are something more than technical financial problems.

I say that for many reasons. You can realize it by thinking of American life, of the nature of things, of ideas and wishes and group pressures that always crop up, that make it hard even for us to keep to the line of a decent, satisfactory fiscal situation. All these influences are stronger in these war-torn countries. Too much pressure towards monetary reform, too quickly applied, might cause the governments most willing to work with us to fall. It might require the abandonment of military or economic plans that should be carried on. The attainment of stable, self-supporting monetary and fiscal conditions are of primary importance, but the timing, the rate at which you try to achieve them is also of great importance.

I warned you that I should talk only in generalities, that I would have little to say about the working details of this plan, that I lack knowledge about many of them. I shall be glad, however, if you so wish, in response to questions to try to get out of the realm of general description and analysis in which I have talked and get a little closer to the working details, with which probably many of you gentlemen will be concerned. Thank you very much.

COLONEL TEMPLE: I would like to ask the first question. The sixteen countries in computing their requirements for certain assistance broke it up into areas. The requirements that they expected to get from areas other than the United States were much more realistic than those they anticipated getting from this country. In many cases they were too ambitious, the quantities were greatly overexpanded. Have you any idea as to why that came about?

MR. FEIS: I don't think that is so. Obviously they calculated that with our developing production we would be able to have a surplus that we could give to them, which no other part of the world would be likely to have.

I do think that in their original estimates, the ones that were never presented to the American government at all, of what they would like to have, they did draw with a free hand. But in the program actually presented, and certainly in the program as adopted, their acquisitions, I think, from the Western Hemisphere are very close to what they would require, perhaps in some respects even too little to achieve the purposes of the plan, while their expectation of what they are going to get from the rest of the world may be too high.

Now, again, that was not a matter of design. I think they were really trying, while holding on to this large vision of what they would like to have--this practice of living beyond their means again--I think they were really trying to keep their list of demands on us down as low as they could. But when they got to studying the question of what they could get from the Pacific area and to what extent trade between eastern Europe and western Europe would resume, they wrote hopefully. And I think that probably those elements of the future balance of payments estimates are going to prove the weakest of the lot; that trade between eastern and western Europe is not going to grow as rapidly as specified in the documents, and that trade with the Pacific area is not going to grow as rapidly. But that I give you as a personal judgment.

QUESTION: In regard to that trade between eastern and western Europe, is there any arrangement made for trade balances, any phasing between eastern and western Europe, as to how far ahead these countries would be permitted to make arrangements with any country so as not to get in imbalance or so that it could be corrected readily?

MR. FEIS: So far as I know, each of these countries will remain completely free to enter any sort of arrangement with the countries of eastern Europe that they can. I presume that in any such deal all the negotiating parties will have two eyes on the United States; that the countries will be reluctant to send to eastern Europe goods that they might be able to sell anywhere else for dollars; and that the eastern European countries will have something of the same idea. That is an actual problem that is already facing them, and I am sure it is one that will hit Mr. Harriman the moment he steps off the plane.

It will come up, let us say, in the specific form of French coal. The French need coal. There are two places they can get it--Poland and the United States.

Poland has notably increased its coal production, and Britain is no longer importing coal, or if so, in very small quantity. France would like to trade with Poland, but the goods that Poland wants are things that France could probably sell to the Western Hemisphere for dollars. Is that advantageous or not? Instead of sending those goods here, should they be sent to Poland? Time does not permit an analysis of that problem, but that is coming up all around the map--adjustment of the east-west trade relationships in terms of our bilateral agreements.

That reminds me that I have not explicitly stated, but you probably all know, that the working shafts of this plan are to be the bilateral agreements that the American government is to work out with each of the sixteen recipient countries. Under the legislation we have until the third of July to work those out. In the meantime we will carry on under letters of intent.

Now, the success in negotiating those sixteen agreements is going to be a very decisive thing, because in the course of negotiating them you will have to reach some common basis as regards these main questions of principle to which I referred earlier. When you can read these bilateral agreements you will have a very much clearer idea of whether the ECA plan is going to work in accord with our original conception of how it should work.

QUESTION: I don't know if it is generally realized how close England was to a crash. It was a matter of months. In my own view it was a matter of six months before we met with unemployment. I would like to ask this question: You have said that our production is on the increase. You have said also that the intertrade arrangements which are necessary for recovery are moving very slowly. I believe those intertrade arrangements will be done more easily when our production is higher and there is more with which to trade. Do you think we can afford the time spent in getting our production going before we get going on these intertrade negotiations?

MR. FEIS: I suppose the men on the job will be addressing themselves to both things at the same time, enduring what disappointment they must in the tardiness of the trade arrangements and the necessity of possibly producing more spirit of compromise. That that spirit of compromise is still not dominant is shown by the attempt of just five or six or seven countries of western Europe in the negotiations over the past month to reach some common plan for clearing of balances.

They have a plan that could be very helpful in enlarging the trade between that group of countries, but it would involve the possibility, really the probability, that some of those countries would have to make loans to others in the form of acquiring amounts of their local currencies that they could not use at once. It would possibly mean a redistribution of the goods that they are anticipating receiving from the Western Hemisphere. In short, it involves all sorts of give and get as among these six or seven countries, all sorts of risks, minor economic risks. They have failed to reach significant agreements on that as yet.

I understand that the chief difficulty was the fact that France is in a deficit position vis-a-vis the other countries; and that any agreement would mean that, at least for the time being, they would all find themselves giving up either their own currencies or dollars and accumulating francs; and they have been reluctant to do that.

To get to your question again, I presume there is no choice but to try to do both at the same time, and to hope that the necessity for developing their trade will soon become so evident that each national government will be disposed to take a little bit more risk and give up a little bit to get it going.

QUESTION: Mr. Feis, referring to the strategic and critical raw materials situation in our own country and the hope that we can work into this program and get some materials from other countries, do you think that that is a practical hope in view of the material situation in the respective countries?

MR. FEIS: Yes. I really do. The program as drafted--and that is one of the good drafting features of this legislation as compared with what it might have been--merely requires a cooperative effort in this first stage, a cooperative effort in the location and in the planning for development of production of these materials. I don't see why that should not be mutually welcome as well as practicable. I don't see why the British, with their excess of capital needs over capital resources at the present, should not, for example, welcome the prospect of American participation, the participation of American capital, in the identification and possible development of certain of the resources of their empire. The same with the French. I think there could be recognition that it would advance their own long-run economic strength and prosperity.

Now, when you get into two other phases of the thing, you run into difficult questions of timing and method. One is that after you locate these things, after you decide what should be undertaken, after you have agreed as to the way in which the local government and the American government or the American private capital should cooperate, you then have to decide--and that is probably what is in your mind--whether you could spare the machinery and the labor force and so on to do that job now.

Well, I would trust the representatives of the American government and the local government to decide that in the light a little bit of the over-all international situation, as they did in 1940 and later. At least, that is my hope--that they would consider it in the light of practical negotiations and decide whether we want more copper and here is the place to get it. This is the labor that is involved, this is the machinery, this is the manpower. Let us get it even though it means taking it away from this, that, or the other thing.

Then the question comes as to the disposal of the product. That is a question of whether it shall be sold to us on special terms or on commercial terms. That too, I should think, would be negotiable. I think that that is a practicable and important element in this program, though it will require the same type of disposition that entered into the operations, let us say, of the Combined Raw Materials Board from 1940 on.

COLONEL TEMPLE: Mr. Feis, we certainly thank you very much for being with us this morning.

(21 May 1948--450)S/1h