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DEPARTMENT OF STATE

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E.O. 11652, Sec. 3(E) and 5(D)

DEPT. OF STATE LTR LR-73

By NLT, NARS Date 2-9-73

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SUMMARY OF THE DEPARTMENT'S POSITION
ON THE CONTENT OF A EUROPEAN
RECOVERY PLAN

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paper for discus-
sion purposes only

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SECOND DRAFT

August 26, 1947

Summary of Department's Position on the
Content of a European Recovery Program

A. Fundamental Objectives. Department regards following features fundamental to U.S. concept of program:

1. Basic objective of program is to move entire area progressively from present condition to working economy independent of abnormal outside support, taking full account of basic changes in European conditions such as political developments in Eastern Europe, altered position of former colonial territories, and loss of overseas assets, merchant shipping and other prewar invisible exports.

2. Participants must take concerted efforts to foster European recovery as a whole, and show genuine readiness to make national contributions to this common goal.

3. Program must realize maximum opportunities for self-help and for mutual help within the area and thus minimize outside aid requirements; program must therefore concentrate initially on elimination of bottlenecks and other opportunities for greatest immediate recovery at lowest cost in scarce resources.

4. Program

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4. Program must be directed primarily toward short-run recovery rather than long-run development; full use of existing or readily repairable capacity and restoration of normal domestic and intra-European intercourse therefore have priority, although not excluding longer-run capital development necessary to meet goal in 1 above.

B. Essential Elements of Program. Program submitted for U. S. consideration must contain these elements:

1. Concrete proposals for area-wide recovery of agriculture and basic industries -- coal, steel, transport, and power -- which are fundamental to viable European economy. Proposals must correlate individual national programs and individual industry programs and give priority to projects promising quickest expansion of output. Bizonal German area must be taken fully into account. Stop-gap aid in coal, food, etc. pending European recovery must be minimized. Proposals must be fully justified through following steps:

a. Development of country requirements for food and end-products of basic industries (coal, steel, etc.) on realistic and defensible basis, with clearly stated standards, and intensive mutual criticism and screening.

b. Statement of specific national production goals in food and basic industries, with concrete proposed measures to attain those goals and specific stated requirements (if any) for extra-national aid in such items as fuel, fertilizer, mining and agricultural machinery,

power

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power, steel, or manpower. These requirements statements must be supported by justifications and must also be subjected to constructive mutual criticism and screening.

c. Development in concert of concrete proposals for mutual aid to meet requirements under (a) and (b) from sources within the area or under political control of the participants, including priorities in reactivation creating maximum mutual aid potentialities.

d. Adjustment of national agricultural and basic industry programs on area-wide basis, taking full account of mutual aid possibilities, and giving priority to bottleneck elimination and other opportunities for greatest speed in recovery.

e. Development of concrete and minimum requirements for outside aid as a residual of processes in (a), (b), (c), and (d).

Discussion of Item 1.

Production recovery in agriculture and basic industries is cornerstone of entire program. Greatest hope lies in intensive attack on such problems as British and Ruhr coal production, French grain, railroad equipment repair, etc. Measures of planning, international allocations, and internal priorities to obtain promptest expansion are essential to speedy recovery with minimum outside aid at least while basic resources remain sharply limited. Such controls should be confined to fields of agriculture and basic industries and be progressively liquidated

as output increases and normal economic forces come into play. As to U. S. public views on this item, note that NAM industrialists meeting with Ness have expressed view that European program's main feature should be to set production goals for the basic industries and concentrate on their achievement.

2. Undertakings on domestic measures necessary for internal economic stabilization, efficient use of national resources to minimize outside aid, and fulfillment of mutual aid commitments. Proposals should recognize wide variations in need for remedial measures, which include:

a. Currency reform, correction of grossly inflationary fiscal practices, and price stabilization for essential commodities.

b. Collections, internal allocations and priorities, and rationing of essentials, during period of acute stringency.

c. Direction of supplies to fulfill mutual aid commitments, on priority equal to if not higher than internal use.

Discussion of Item 2.

These measures complementary to Item 1.

Full restoration of economic fabric internally will be possible only after production has increased, although much can be done immediately to reduce currency in circulation, reform taxes, etc. Must be recognized, however, that breakdown in normal monetary exchange is to considerable extent symptom rather than cause, and that over-drastic monetary and fiscal remedies without foundation in increased production may actually retard

recovery. Moreover political implications, including danger of widening cleavages among producer and consumer groups must be carefully considered. As to use of internal Government controls, hope that expanded production will permit early liquidation. However, normal price mechanism cannot function in face of present acute scarcities. U.S. cannot accept situation under which its aid goes directly into or replaces domestic supplies going into barter, compensation and black markets. U.S. also concerned as to internal political consequences of inequitable distribution of scarce vital commodities.

3. Comprehensive measures to foster multi-lateral intra-European trade, over and above any specific mutual aid arrangements. These measures should be directed toward:

- a. Progressive replacement of bilateral trading arrangements by more effective multilateral arrangements for expanding intra-European trade, looking, if possible, toward an eventual European customs union. Bilateral trade and payments agreements within the group of participants in conflict with the mutual aid program should be abrogated. Possibilities of major trade barrier reductions, encompassing important commodity groups or smaller groups of nations, but short of general customs union, should be carefully considered. Recognize that partial measures of apparently preferential character may run counter to ITO principles. But in view short-run political and administrative obstacles to immediate commitment or rapid progress toward customs union,

union, it appears vital to explore means for European trade barrier reduction falling short of customs union.

b. Facilitating multilateral trade through foreign exchange clearing arrangements among the participants or other means for achieving currency convertibility and transferability. Conference may propose U. S. support of clearing system, under suitable safeguards, either through dollar fund or through direction of portion U. S. commodity aid to countries with export surpluses, although Department has as yet no appraisal of probable Congressional reaction.

Discussion of Item 3.

While in many respects the long-run gains of European economic integration in terms of specialization of production and economic location -- achieved ideally through both a customs and a currency union -- would be the most beneficial consequences of a recovery program, these goals must be put in perspective in relation to more urgent short-run needs. Measures a and b above will contribute little to immediate restoration of production, but will grow in significance as production expands and domestic economies are stabilized. In first phase, therefore, Item 3 is subordinate to 1 and 2, although the groundwork must be laid immediately. In this connection, Congressman Herter has stated to Department that program merely aggregating national deficits and committing participants to customs union would be completely inadequate and unacceptable to Congress.

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C. Forms of Possible U. S. Assistance. Department regards formulation of program of maximum self-help and minimum outside aid requirements as primary Conference goal but recognizes importance to realistic program of guidance on general form of possible outside assistance. In this connection:

1. Assumed that in any event major part U. S. aid would be specified commodities or commodity groups. Extent of possible untied dollar assistance, either to support clearing system or otherwise, should be left open for review on merits.

2. Program should minimize dollar aid for purchases outside U. S. It is not (repeat not) intended to satisfy entire world's appetite for dollars ~~under~~ under guise European Recovery program. Efforts should be made to maintain existing commitments from other suppliers (such as Argentine and Canadian contracts for wheat to U.K.), with dollar aid being limited to increments beyond these commitments. This approach desirable both to limit total assistance requested Congress and to limit inflationary effects within U. S. of maintaining heavy export demands from other areas as well as Europe. Partial relief for dollar shortages outside Europe may of course be subject of negotiations apart from European program. Moreover, program should not exclude expenditures outside U. S. which would increase flow of essential goods to Europe and make real contribution to European recovery. A firm position on this point should not be taken until appraisal is possible of cost of financing extra-European trade and alternative means of securing and financing supplies for Europe from non-U.S. sources. Note press reports of possible large-scale Canadian loan to be

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floated

floated privately in New York.

3. Distribution of aid by U.S. should take into account recommendations by continuing European organization or where appropriate by other international allocating bodies (e.g., coal and food). However, U. S. aid will not be provided in totals for subdivision by Europeans. UNRRA precedent will not be followed. U. S. would hope to be guided by European recommendations but must retain freedom to modify allocations to assure most efficient use of aid and to enforce any agreed conditions.

D. Relations with Eastern Europe. On trade and financial relations of participating countries with Eastern Europe, Dept recognizes necessity of existing trade between Eastern and Western Europe and desirability of its increase. Program cannot, however, include provision of U. S. direct dollar or commodity aid to Eastern Europe because of political inacceptability here. U. S. will consider international measures of help for Eastern European countries designed to aid Western European recovery, e.g. World Bank loan to expand production and transport Polish coal; and recognizes necessity expanding production in Western countries in lines furnishing exports to Eastern Europe, to be exchanged against Eastern European exports of essential commodities to West. U. S. does not require abrogation bilateral agreements with Eastern European countries. Foregoing views obtain so long as Eastern Europe not clearly engaged in economic warfare against Western Europe.

E. Place of Germany in Program. On relation of Germany to program, Dept considers that three western zones, as unit or bizonal area

plus French zone, be covered fully into program. Revised level of industry agreement should be basis for inclusion of bizonal area, with changes required in interest of European-wide recovery recommended by conference on same basis that conference makes similar recommendations for changes in Monnet or other national plans. Rates of and priorities in reactivation of German industry should likewise be discussed by conference as part of similar discussion of achievement of other national plans. U. S. desires earliest possible self-supporting German economy, but recognizes that German recovery does not have priority over similar recovery elsewhere in Europe, and that recovery in Germany should not receive special impetus at expense of wider European recovery. On other hand, Dept will not agree to system of allocations of German resources or U. S. aid which would postpone German recovery until full recovery other countries has been assured.

F. Role of U.N. Dept supports fullest practicable use of United Nations bodies and specialized agencies in carrying out of program. This includes continued international allocation of coal through ECE Coal Committee and food through IEFC Committees, and technical planning work in ECE Committees on transport and power. Sympathetic to assignment to ECE of additional functions related to program. But Dept recognizes that coordination of European program and integration of UN activities with needs of this special program will probably have to be retained in organization composed only of participants (including bizonal Germany). In view possibilities systematic obstruction to ECE effectiveness, special European recovery organization must be able to handle entire program and

must be prepared to assume promptly functions assigned to other organizations if they prove ineffective.

G. Continuing Organization. Dept recognizes that present Conference cannot possibly make complete blueprint for European recovery over next several years. Initial program must conform to all above elements, but many details of its application will remain for further study. Modifications are also to be expected during negotiations with the U. S. before acceptance and in continuing development of any accepted program. Emphasis should be given to major role of continuing organization of participating countries (plus bizonal German area), both in implementing and in progressively refining any agreed program.

H. Procedures.

1. When the Conference has first draft of program, U. S. representatives in Paris should review it informally, presumably with Executive Committee. Review should cover both general policy matters and technical questions, and U. S. group in Paris should include technicians qualified on all phases of program. Purpose of review is to afford U. S. representatives opportunity to seek explanations and clarifications of points that are not clear. In such discussions, U. S. representatives would be guided by above statements on essentials of workable program. This should be opportunity to guide both content and conclusions of Conference report. It should be made clear that U. S. representatives are taking this action to facilitate presentation of program to U. S.

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Government and that it is not final U. S. critical analysis of program looking toward approval.

2. When the Conference has completed report, it should be transmitted to U. S. Transmittal by Bevin as Conference Chairman to Secretary Marshall would be satisfactory. Desirable to have document physically in Washington prior to release to press in Paris so that copies can be made here for distribution. First impact on U. S. public should not be through newspaper accounts cabled from Paris.

3. After report has been received in Washington and given at least cursory examination, it would be desirable for Conference representatives, presumably Executive Committee, to discuss it in Washington with U. S. Executive Departments.

4. Drafting of multilateral and bilateral agreements would start simultaneously with submission of proposed legislation to Congress.

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