

*Memorandum by the Under Secretary of State for Economic Affairs  
(Clayton)*<sup>1</sup>

THE EUROPEAN CRISIS

1. It is now obvious that we grossly underestimated the destruction to the European economy by the war. We understood the physical destruction, but we failed to take fully into account the effects of economic dislocation on production—nationalization of industries, drastic land reform, severance of long-standing commercial ties, disappearance of private commercial firms through death or loss of capital, etc., etc.

2. Europe is steadily deteriorating. The political position reflects the economic. One political crisis after another merely denotes the existence of grave economic distress. Millions of people in the cities are slowly starving. More consumer's goods and restored confidence in the local currency are absolutely essential if the peasant is again to supply food in normal quantities to the cities. (French grain acreage running 20-25% under prewar, collection of production very unsatisfactory—much of the grain is fed to cattle. The modern system of division of labor has almost broken down in Europe.)

3. Europe's current annual balance of payments deficit:

UK .....	\$2 $\frac{1}{4}$	billions
France .....	1 $\frac{3}{4}$	"
Italy .....	$\frac{1}{2}$	"
US-UK Zone Germany.....	1 $\frac{1}{2}$	"
	\$5	billions

not to mention the smaller countries.

The above represents an absolute minimum standard of living. If it should be lowered, there will be revolution.

*Only until the end of this year* can England and France meet the above deficits out of their fast dwindling reserves of gold and dollars. Italy can't go that long.

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<sup>1</sup>This memorandum was sent to Under Secretary Acheson on May 27, with a chit reading, "If you approve the attached, I would like to discuss it with the Secretary."

Mr. Clayton had temporarily returned to Washington from Europe, where he was attending, as head of the U.S. Delegation, the Second Session of the United Nations Preparatory Committee for an International Conference on Trade and Employment at Geneva. In Europe since early April, the Under Secretary of State for Economic Affairs had been in frequent consultation with leaders of many governments of Western Europe regarding the deterioration of their economies.

## 4. Some of the principal items in these deficits:

From the U.S.:	Coal, 30 million tons.....	\$ 600 million
" " "	: Bread grains, 12 million tons..	1,400 "
" " "	: Shipping services at very high rates on imports and ex- ports .....	xxxxx "

Before the war, Europe was self-sufficient in coal and imported very little bread grains from the United States.

Europe must again become self-sufficient in coal (the U.S. must take over management of Ruhr coal production) and her agricultural production must be restored to normal levels. (Note: No inefficient or forced production through exorbitant tariffs, subsidies, etc., is here contemplated).

Europe must again be equipped to perform her own shipping services. The United States should sell surplus ships to France, Italy and other maritime nations to restore their merchant marine to at least prewar levels. (To do it, we will have to lick the shipping lobby, fattening as it is off the U.S. Treasury).

5. Without further prompt and substantial aid from the United States, economic, social and political disintegration will overwhelm Europe.

Aside from the awful implications which this would have for the future peace and security of the world, the immediate effects on our domestic economy would be disastrous: markets for our surplus production gone, unemployment, depression, a heavily unbalanced budget on the background of a mountainous war debt.

*These things must not happen.*

How can they be avoided?

6. Mr. Baruch<sup>2</sup> asks for the appointment of a Commission to study and report on our national assets and liabilities in order to determine our ability to assist Europe.

This is wholly unnecessary.

The facts are well known.

Our resources and our productive capacity are ample to provide all the help necessary.

The problem is to organize our fiscal policy and our own consumption so that sufficient surpluses of the necessary goods are made available out of our enormous production, and so that these surpluses are paid for out of taxation and not by addition to debt.

This problem can be met only if the American people are taken into the complete confidence of the Administration and told all the facts and only if a sound and workable plan is presented.

<sup>2</sup> Bernard M. Baruch had served as Chairman of the War Industries Board in 1918, as an adviser to the Director of War Mobilization, 1943-1945, and as U.S. Representative on the U.N. Atomic Energy Commission in 1946.

7. It will be necessary for the President and the Secretary of State to make a strong spiritual appeal to the American people to sacrifice a little themselves, to draw in their own belts just a little in order to save Europe from starvation and chaos (*not* from the Russians) and, at the same time, to preserve for ourselves and our children the glorious heritage of a free America.

8. Europe must have from us, as a grant, 6 or 7 billion dollars worth of goods a year for three years. With this help, the operations of the International Bank and Fund should enable European reconstruction to get under way at a rapid pace. Our grant could take the form principally of coal, food, cotton, tobacco, shipping services and similar things—all now produced in the United States in surplus, except cotton. The probabilities are that cotton will be surplus in another one or two years. Food shipments should be stepped up despite the enormous total (15 million tons) of bread grains exported from the United States during the present crop year. We are wasting and over-consuming food in the United States to such an extent that a reasonable measure of conservation would make at least another million tons available for export with no harm whatsoever to the health and efficiency of the American people.

9. This three-year grant to Europe should be based on a European plan which the principal European nations, headed by the UK, France and Italy, should work out. Such a plan should be based on a European economic federation on the order of the Belgium-Netherlands-Luxembourg Customs Union. Europe cannot recover from this war and again become independent if her economy continues to be divided into many small watertight compartments as it is today.

10. Obviously, the above is only the broad outline of a problem which will require much study and preparation before any move can be made.

Canada, Argentina, Brazil, Australia, New Zealand, Union of South Africa could all help with their surplus food and raw materials, but we must avoid getting into another UNRRA. *The United States must run this show.*

[WASHINGTON,] May 27, 1947.

W. L. CLAYTON

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